Where To Download Chapter 13 Leverage Capital Structure Answers Free Download Pdf

Target leverage and capital structure adjustment speed across German industries The Relationship Between Capital Structure Determinants and Financial Leverage for a Sample of Irish Listed Companies **Does capital structure influence firms value? Capital Structure Theories and Empirical Results - a Panel Data Analysis Thin Capitalization Rules and Multinational Firm Capital Structure Capital Structure as a Bargaining Tool The Capital Structure Decision** *Effect of Financial Leverage on Performance of Listed Firms in Nigeria Optimal Leverage Strategy* Operating Leverage, Profitability and Capital Structure *The Effect of Taxes and Leverage Related Costs on Corporate Capital Structure* **Business Environment and Firm Entry Superstar Firms What Do We Know about Capital Structure? Determinants of Capital Structure Investigation of the Most Appropriate Capital Structure Theory and Leverage Level Determinants** *Why International Trends in Leverage Have Been So Different* **Determinants of Capital Structure in Western Europe The Effect of Financial Deficit and Target Leverage on Capital Structure and Debt Characteristics Capital Structure Dynamics and Stock Returns Leverage and International Capital Structure The Capital Structure of Listed**

Companies in Poland Profitability, Mean Reversion of Leverage Ratios, and Capital Structure Choices Market-Timing of Capital Structure and Factors Influencing the Leverage Decision of Firms Corporate Capital Structures in the United States *Capital Structure in Corporate Spin-Offs* **Dynamical Corporate Finance Common Problems in Capital Structure Research Capital Structure Dynamics and Risks** On Capital Structure and the Liquidity of a Firm's Stock **Leverage and Debt Maturity** *Optimum Capital Structure* Capital Structure and Corporate Spin-offs **Capital structure as a bargaining tool Sources of Capital Structure** Capital Structure, Earnings Management, and Risk of Financial Distress **Deviation from Target Capital Structure, Cost of Equity and Speed of Adjustment Capital Structure Policy: Kleen Kar Inc.** Capital Structure and Market Timing in the UK **Leverage and Capital Structure Determinants of Chinese Listed Companies**

"In this doctoral dissertation we investigate the capital structure of superstar firms and how the same forces behind their creation differentially affect peer industry firms. Using a quintile distribution of industry operating profit margins (Lerner Index) to proxy for the within industry market power distribution we were able to improve the descriptive capabilities of the typical analyses of leverage evolution and capital structure regression. Our leverage evolution analysis confirms that within industry competition has waned over time, going from a competitive state (1973-1982) to a concentrated state (2010-2020). A key characteristic of industry superstars is their ability to withstand macroeconomic factors better than peers. Innovation helps firms compete for stardom, but reigning stars do not appear particularly innovative. The series are shown to financially behave as two distinct power blocks which

suggests the existence of a threshold value for both market power and industry concentration. Our regression analyses confirm a dynamic relation between financial leverage and market power (industry concentration). Aggregating data along the within-industries channel of leverage variation reveals that the high-power block increasingly substitutes profit margin benefits for those provided by financial debt. The low-power block, limited in options, uses debt strategically weighting the benefits of financial debt against distress costs and expropriation risks. When the data is instead aggregated along the between-industries channel, industry concentration progressively reduces aggregate levels of corporate debt within the high-concentration block of industries. For the low-concentration block of industries, characterized by healthy levels of industry competition, neither profit margins nor distress costs seem to be a factor. However, along these two channels debt levels are shown to increase with profitability which indicates the strategic perspective implicit in these results. It also explains why it would be difficult for basic regression models to describe such a dynamic interaction as they lack the full spectrum of the industry (concentration) effects on the financial structure of firms (industry). In fact, our results show that even at the individual firm level, the inclusion of the market power distribution for the industry improves the descriptive power of the regression model".

Thesis (M.A.) from the year 2009 in the subject Business economics - Economic Policy, grade: M.B.A, University of Dhaka, course: Master of Finance, language: English, abstract: Capital structure is one of the most converse and vital issues both in finance literature and practical research. This research deals with the theoretical and empirical aspects of capital structure decision. It is observed that the determination of debt ratio is subtle and sophisticated to determine, and its estimation is still a matter of debate, and yet there is no

entirely satisfactory theoretical model for forecasting the optimal debt ratio in the firm's capital structure. There is little consensus on how firms choose their capital structure and how the firm-specific factors influence the shape of the capital structure. This research develops a link between theory and practice of capital structure. This study has supported a set of sample firms to show the impact of six factors determinants on the financial leverage and how they comply with the findings derived by different previous theories regarding these factors. Least Square method has been used to assess the influence of defined explanatory variables on the capital structure by using the dataset of Bangladeshi manufacturing firms for the period 2000 to 2004. Out of Six examined explanatory variables-agency-equity, agency debt, Bankruptcy, profitability are statistically significant determinants of financial leverage. Otherwise, growth rate and operating leverage are found to be insignificant. Agency-equity, agency debt, bankruptcy operating leverage, profitability, growth rate, all these are showing a negative relation with the dependent variable. Also, this paper suggests that the institutional context and macroeconomic events play an essential role in the capital structure decisions of Bangladeshi companies. It would seem appropriate that further research should focus on the role played by the institutional framework, such as the impact of taxation, the practice of good corporate governance, legal and regulatory structure. We investigate the determinants of capital structure choice by analyzing the financing decisions of public firms in the major industrialized countries. At an aggregate level, firm leverage is fairly similar across the G-7 countries. We find that factors identified by previous studies as correlated in the cross-section with firm leverage in the United States, are similarly correlated in other countries as well. However, a deeper examination of the U.S. and foreign evidence

suggests that the theoretical underpinnings of the observed correlations are still largely unresolved. Using a comprehensive database of firms in Western and Eastern Europe, we study how the business environment in a country drives the creation of new firms. Our focus is on regulations governing entry. We find entry regulations hamper entry, especially in industries that naturally should have high entry. Also, value added per employee in naturally quot;high entryquot; industries grows more slowly in countries with onerous regulations on entry. The consequences of more restrictive entry barriers are seen, not in young firms, but in older firms, who grow more slowly and to a smaller size. Thus the absence of the disciplining effect of entry has real adverse effects. Interestingly, regulatory entry barriers have no adverse effect on entry in corrupt countries, only in less corrupt ones. Taken together, the evidence suggests bureaucratic entry regulations are neither benign nor welfare improving. However, not all regulations inhibit entry. In particular, regulations that enhance the enforcement of intellectual property rights or those that lead to a better developed financial sector do lead to greater entry in industries that do more Ramp;D or industries that need more external finance. Though prior capital structure literature suggests a causal relation between liquidity and leverage (i.e., liquidity affects leverage), we explore the notion that these variables are jointly determined. Consistent with the idea that debt forces managers to make better investment decisions, we find that as leverage increases, spreads decrease. Results from our empirical analysis further imply that as liquidity decreases, leverage increases, which is consistent with the notion that managers rely on debt financing when equity financing becomes relatively expensive. While controlling for the endogenous relationship between spreads and leverage greatly reduces the impact of spreads on leverage, results from our method suggest

that a one standard deviation increase in spreads results in a 3% increase in leverage. Not only do our results add to the understanding of the complex relationship between capital structure and liquidity, they also shed light on the determinants of leverage and bid-ask spreads. Capital structure pertains to the extent of leverage of the firm. In recent years, a number of theories have been proposed to explain the variation in debt ratios across firms. The theories suggest that firms select capital structures depending on attributes that determine the various costs and benefits associated with debt and equity financing. The same is tested here via econometric techniques using Prowess Database for Indian Companies. The way in which leverage and its expected dynamics impact on firm valuation is very different from what is assumed by the traditional static capital structure framework. Recent work that allows the firm to restructure its debt over time proves to be able to explain much of the observed cross-sectional and time-series variation in leverage, while static capital structure predictions do not. The purpose of this book is to re-characterize the firm's valuation process within a dynamical capital structure environment, by drawing on a vast body of recent and more traditional theoretical insights and empirical findings on firm evaluation, also including asset pricing literature, offering a new setting in which practitioners and researchers are provided with new tools to anticipate changes in capital structure and setting prices for firm's debt and equity accordingly. Academic Paper from the year 2021 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 4.5, Ahmadu Bello University, language: English, abstract: This paper analyzes the effect of financial leverage on firms' performance. The aim was to study the implications of financial leverage on firms performances. Also considering that maximizing accounting profit and maximizing shareholders

value are not identical because of shareholders losses from agency costs, it was therefore pertinent to see how capital structure affect shareholders value. The objective of the study was to identify the possible effects of financing leverage on the performance of the company, to establish the relationship between leverage and corporate performance of listed firms in Nigeria, to determine the extent to which capital structure affect shareholders returns, to determine when the shareholder's wealth can be said to have been maximized given a particular capital structure and to analyze the debt and equity which might result in over capitalization of the firm. The research was designed to collect data through a survey method from five listed firms - Dangote Sugar Refinery, Nestle, Flour Mills, Cadbury, and Nigerian Breweries. Descriptive design (percentages) was used to explain the effect of financial leverage on company's performance; while analytical design (correlational statistical method) was used to establish the relationship between financial leverage and corporate performance. Operating leverage increases profitability and reduces optimal financial leverage. Thus, operating leverage generates a negative relation between profitability and financial leverage that is thought to be inconsistent with the trade-off theory, but is commonly observed in the data. We demonstrate the effect of operating leverage on firms' profitability and financial leverage, as well as on the empirical relation between profitability and financial leverage, by using China's entry into the World Trade Organization in 2001 and its effect on the capital-labor ratio of US firms. This book analyzes the impacts that family control of firms has on capital structure choices, leverage and the risk of financial distress, earnings management practices, and the relation between accounting choices and firm market value. For these purposes, longitudinal data on Italian family and non-family non-financial firms are closely analyzed.

The Italian setting is of special interest in this context because family businesses account for 94% of GDP, families are particularly committed to maintaining control of firms, and the economy is bank based rather than market based. The analyses draw on the socioemotional wealth approach, which emphasizes the importance of the stock of emotional value in family firms, in combination with financial theories such as Pecking Order Theory, Trade-off Theory, and Agency Theory. The findings cast significant new light on differences between family and non-family firms and the effects of different forms of family influence. The book will have broad appeal for academics, managers, practitioners, and policymakers. This paper points out two common problems in capital structure research. First, although it is not clear whether they should be considered debt, non-financial liabilities should never be considered as equity. Yet, the common financial-debt-to-asset ratio (FD/AT) measure of leverage commits exactly this mistake. Thus, research that explains increases in FD/AT explains, at least in parts, decreases in non-financial liabilities. Future research should avoid FD/AT altogether. Second, equity issuing activity should not be viewed as equivalent to capital structure changes. Empirically, the correlation between the two is weak. The capital structure and capital issuing literature are distinct. The research reported in this volume represents the second stage of a wide-ranging National Bureau of Economic Research effort to investigate "The Changing Role of Debt and Equity in Financing U.S. Capital Formation." The first group of studies sponsored under this project, which have been published individually and summarized in a 1982 volume bearing the same title (Friedman 1982), addressed several key issues relevant to corporate sector behavior along with such other aspects of the evolving financial underpinnings of U.S. capital formation as household saving incentives, international capital flows, and

government debt management. In the project's second series of studies, presented at the National Bureau of Economic Research conference in January 1983 and published here for the first time along with commentaries from that conference, the central focus is the financial side of capital formation undertaken by the U.S. corporate business sector. At the same time, because corporations' securities must be held, a parallel focus is on the behavior of the markets that price these claims. Many finance theories predict that the capital structure affects firm value, which implies that the changes in leverage have an impact on stock returns. Most of the existing literature however has been focusing on the determinants of the capital structure. Using a sample of U.S. public firms during 1975-2002, we document a significantly negative effect of leverage changes on next-quarter stock returns. This effect remains significant after controlling for other firm characteristics such as ROE, book-to-market, firm size, and past returns. We propose and test several hypotheses to explain the observed effect. We find that the negative effect is stronger for the firms with a higher leverage level. This is consistent with a dynamic view of the pecking-order model that an increase in leverage reduces firms' debt capacity and may lead to future underinvestment. Further tests confirm the negative effect of current leverage change on future investment. In contrast, our results cannot be explained by the trade-off theory, default premium, the market timing theory, or the operational signaling story. Specifically, we find that deviation from the target leverage ratio has no impact on the stock returns, inconsistent with the trade-off theory (which implies an optimal, or partially optimal, leverage ratio). In addition, the change of long-term debt affects stock returns more than the change of short-term debt, and the one-year expected return following leverage change does not increase, both of which are inconsistent with

the default risk premium hypothesis. Our results are not driven by firms' market timing activities. A firm times the market by issuing new equity (repurchasing stocks) when its equity is over-(under-) valued, which implies a positive relation between the leverage change and stock return. We also do not find support for the view that leverage increase signals poor future operating performance. Finally, we show that the return effect of leverage change contains information that cannot be explained by the popular pricing factors. This sheds new light on the link between capital structure choice and empirical asset pricing. This paper examines the impact of thin capitalization rules that limit the tax deductibility of interest on the capital structure of the foreign affiliates of US multinationals. We construct a new data set on thin capitalization rules in 54 countries for the period 1982-2004. Using confidential data on the internal and total leverage of foreign affiliates of US multinationals, we find that thin capitalization rules significantly affect multinational firm capital structure. Specifically, restrictions on an affiliate’s debt-to-assets ratio reduce this ratio on average by 1.9%, while restrictions on an affiliate’s borrowing from the parent-to-equity ratio reduce this ratio by 6.3%. Also, restrictions on borrowing from the parent reduce the affiliate’s debt-to-assets ratio by 0.8%, which shows that rules targeting internal leverage have an indirect effect on the overall indebtedness of affiliate firms. The impact of capitalization rules on affiliate leverage is higher if their application is automatic rather than discretionary. Furthermore, thin capitalization regimes have aggregate firm effects: they reduce the firm’s aggregate interest expense but lower firm valuation. Overall, our results show than thin capitalization rules, which thus far have been understudied, have a substantial effect on the capital structure within multinational firms, with implications for the firm’s market valuation. Total debt in the

People's Republic of China has increased significantly in recent years, mostly on account of nonfinancial corporate debt. Earning and the financial performance of corporate firms have weakened, and so has the asset quality of the financial sector. This paper assesses the financial fragility of the Chinese economy by looking at risk factors in the nonfinancial sector. We apply quantile regressions to a rich dataset of Chinese listed companies contained in Standard & Poor's IQ Capital database. We find higher sensitivity over time of corporate leverage to some of its key determinants, particularly for firms at the upper margin of the distribution. In particular, profitability increasingly acts as a curb on corporate leverage. At a time of falling profitability across the Chinese nonfinancial corporate sector, this eases the brake on leverage and may contribute to its continuing increase. In this paper, we analyze the impact of leverage deviation (i.e., actual minus target optimal leverage) on the implied cost of equity capital. Our special focus is on whether (and to what extent) the sensitivity of the cost of equity to leverage deviation, influences the speed with which firms adjust their financial leverage towards the target. Confirming theoretical predictions, we find that the cost of equity is positively related to leverage deviation and that firms whose cost of equity is more sensitive to leverage deviation exhibit faster speed of adjustment towards target. Collectively, our findings imply that capital structure targeting is not equally important to all firms. Indeed, we argue that while evidence of the trade-off theory will tend to be obscured in broad samples, it can hold strongly in meaningfully chosen sub-samples of firms - namely, those characterized by high sensitivity of equity cost to leverage deviation. This thesis aims to add empirical evidence to the corporate finance literature by looking at the financing decisions with a specific application to small companies in the context of the UK relatively

highly regulated Main market, versus the lightly regulated Alternative Investment Market (AIM). I do this by gathering data on all quoted dead and alive companies in both markets from 1995 to 2008. I then split my sample firms in each market into different size groups and test my hypothesis within and across each group and each market. The thesis consists of six chapters. After an introductory chapter, I review the existing literature on capital structure and debt maturity controversies with an emphasis on recent empirical work. The next three chapters consist of three research papers. The first paper looks at the capital structure decisions of companies quoted in AIM and Main market across different size groups. In the second research paper, the maturity structure of debt is investigated in both markets. The third research paper tests the determinants of the delisting decision, particularly the effect of leverage using a sample of AIM companies. In the last chapter, I provide a summary of the main conclusions of the study and highlight some promising ideas for future research. The first empirical chapter analyses the drivers of leverage across firms' sizes and market of quotation. I find that companies that are listed on the Main market have higher leverage than those listed on AIM. My results show that AIM companies are subject to higher business risk and tend to have lower profitability and tangible assets. In addition, in both markets, small companies are different from large firms in their level of leverage, tangibility of assets, and profitability, suggesting that the drivers of the financing choice are size dependent. Interestingly, the impact of taxation is limited to only large companies in both markets. Similarly, the impact of the agency conflict is also limited to large companies, as for small firms I find a positive relationship between leverage and growth opportunities, in contrast to the predictions of the agency theory. These results suggest that size rather than market of quotation is more likely to explain firms'

leverage. However, I find that the market of quotation affects their speed of adjustment toward target leverage ratios. Using the dynamic model of capital structure, I find that in the Main market, small companies adjust more rapidly than large firms, suggesting that they rely more on bank debt and thus result in lower costs of adjustment. In contrast, large firms on the AIM adjust more rapidly than small companies, suggesting that small AIM companies are subject to the highest costs of adjustment as they have the highest business risk and the lowest profitability. The second empirical paper investigates the determinants of the structure of debt maturity across firms' size groups in both markets. I find that firms quoted in the Main market use longer maturity of debt in contrast to their AIM counterparts. However, the structure of debt maturity is different between small and large companies, as small companies use shorter debt maturity. Moreover, I find that the determinants of debt maturity are relatively different across the two sets of markets, suggesting that the market of quotation, are likely to affect the structure of debt maturity. Particularly, the effect of leverage is mixed in those markets. In the Main market, companies with higher leverage use more long-term debt in contrast to those quoted in the AIM. In line with my results in the previous chapter, I find that the speed of adjustment depends on the market of quotation. Using a dynamic framework, I find that companies have a target debt maturity, but, while in the AIM large companies adjust more rapidly than small companies, I find the opposite in the Main market. I also contribute to the literature by assessing the impact of firm's life cycle on its choice of debt maturity. I use a sample of newly listed firms and assess the evolution of the maturity structure of their debt four years after their IPO. I find strong differences across the two markets. In the Main market, my empirical evidence shows that in contrast with small companies, large companies

change the structure of their debt maturity significantly as they are more likely to use longer maturity of debt in the post-IPO period. While in the AIM, the structure of debt maturity is not affected by size as neither large companies nor small companies change their debt maturity significantly. In the last empirical chapter, I study the impact of leverage on the delisting decision. I address the following questions: Do firms delist from the stock market because they are unable to raise equity capital and redress their balance sheet? Previous studies state that raising equity capital is one of the main benefits of stock market quotation. I expect firms that are not likely to take advantage of this benefit to have higher listing costs and more likely to delist. I use leverage as a proxy variable and a sample of voluntary delisting from AIM. I find that delisted companies have higher leverage as they did not raise equity capital over their public life. My results suggest that companies with higher leverage are more likely to delist voluntarily. These results hold even after controlling for agency conflicts, liquidity, and asymmetric information. I also investigate how the market reacts to the delisting announcement. I find that on the announcement date, stock prices decrease significantly. However, this reaction is not consistent with previous studies that report positive excess returns for companies that go private through different forms of buyouts. The voluntary delisting does not deliver good news to the market and hence voluntary delisting leads to a decrease in stock prices. I also find that firms that increased their leverage in the year prior to the delisting decision generate significantly lower excess returns than other firms. I compare my results to firms that delisted from the AIM but moved to the Main market. I find that that these firms generate statistically higher and positive returns than the remaining firms that delisted voluntarily. My results highlight the negative impact of leverage and a

lack of equity financing on firms' market valuation. My results contribute to the literature and to policy making in several ways. First, I test various controversial and new hypotheses by focussing on differences in institutional settings between the AIM and the Main market. The former is less regulated and it is more likely to attract younger, high growth, and riskier companies. These differences allow me to test various hypotheses developed in previous literature relating to the financing choices of firms. In addition, I provide a deeper analysis of the impact of size on the firms' financing choices. I focus on the differences in leverages across the two, markets, changes in maturity from the IPQ dates, and the drivers of the decision and timing from the IPQ date of companies in the UK. Unlike previous studies, I show that the theoretical determinants of leverage, such as taxation and agency costs, across firms' size groups are not homogeneous, independently of the market quotation. However, I find significant differences across the two markets in terms of dynamic changes in leverage. In addition, my results highlight the impact of leverage on the decision to delist, and imply that policy makers need to facilitate the financing of companies when they list on the market, so that the benefits of listings outweigh the costs, and firms will not rush to voluntary delisting. Essay from the year 2004 in the subject Business economics - Investment and Finance, grade: 1, University of Applied Sciences Kempten (University of Ulster), 9 entries in the bibliography, language: English, abstract: In accordance with the Signalling model by Ross (1977) an increase in gearing represents, in term of a company’s prospective cash flows, a positive signal to external investors. Because, due to the higher risk of financial distress, companies with less optimistic market prospective tend to avoid additional financial obligations. This implies that an increasing indebtedness means a higher quality

of business and therefore better valuation. This leads, in turn, to the assumption that the corporate management can influence a firm's value by changing its capital structure. If capital structure can affect value, how can firms identify an optimal capital structure and what will it look like? It is that mix of debt and equity that maximises the value of a firm and, at the same time, minimise overall cost of capital. In their seminal article, published in 1958 and 1963, Modigliani and Miller argue that under certain assumptions the value of a firm i s independent of its capital structure, but with tax-deductible interest payments, they are positively related. Moreover, there are other approaches with partly contradictory perceptions. For instance, Myers (1998, cited in Fairchild 2003, p.6) argues that there is no universal optimal mix of debt and equity; in fact it depends on firms or industries, and therefore should be considered on a case-by-case basis. Other researchers have added market imperfections, such as bankruptcy costs, agency costs, and gains from leverage-induced tax shields to the analysis and have maintained that an optimal capital structure may exist (Hatfieldet al.1994, p.1). First, this paper shows the basic determinants of a firm's value in association with the impact of financial leverage on payoffs to stockholders. Secondly, it considers some arguments of capital structure theories, particularly the Modigliani and Miller theorem and the Traditional approach and contrasts them. Finally, the underlying factors of the model assumptions are examined and shown that they are important in the choice of a firm's debt-equity ratio. This paper examines the optimal leverage strategy for real estate investors who are investing in income-producing properties. Within a discounted cash flow context, the investment objective for the equity investor is to maximize the contribution to net present value of using mortgage financing. Utilizing more debt decreases the required equity investment and increases the size of the

tax shelter. On the other hand, as the loan-to-value ratio increases, the interest rate charged by the lender increases, which indicates a higher cost of debt. This paper goes beyond the simple conventional wisdom that debt financing should be used when financial leverage is positive by developing an equation that allows one to determine the optimal level of debt financing to use when positive leverage is possible. The optimal loan-to-value ratio is found to be a function of the investor's characteristics. Several hypotheses about the relationships between such an optimal loan-to-value ratio and the investor's characteristics are derived. I investigate the motives for issuance and the debt choices of 427 firms which issue long-term debt for the first time in their history between 1971 and 1999. Their first debt issues are very large relative to firm size and represent a permanent shift in firm financing policy. The amount issued is strongly related to deficits in internally generated funds needed to finance investments and only weakly related to deviations from target leverage structure. In the three (or five) years following the initial issuance, the firms remain significantly underlevered, and their deviations from target leverage are only weakly related to subsequent issues of debt and equity. However, firms finance their external deficits with large amounts of external equity as well - while internal cash flows provide 80% of the their funds and subsequent debt issues track deficits more closely than equity issues, equity issues fund approximately 40% of the initial and subsequent deficits. Financial deficits also affect strongly the likelihood of issuance of debt and equity together. I also examine the source and maturity of new debt. Consistent with Diamond's (1991) life-cycle hypothesis, initial debt issues have relatively short maturity and are overwhelmingly not rated, with the number of rated issues increasing afterwards. Firms with large financial needs are more likely to issue rated debt and longer maturity debt, controlling

for other determinants of those choices. Overall, financial deficits appear to be an important determinant of the decision to issue debt and of the choice of its characteristics. Despite ample research on corporate financing decisions, there is a growing interest in deepening our understanding of how firms structure their financing needs. In this dissertation, we build upon previous work on capital structure by examining the impact of firm-specific and macroeconomic risks on the capital structure of UK manufacturing firms. In particular, the dissertation consists of three separate, yet related essays. Each essay intends to serve a specific objective. The essays, in the order in which they appear, are entitled as follows: Essay I: The Response of Firms' Leverage to Risks: Evidence from UK Public versus Non-Public Firms Essay II: Capital Structure Adjustments: Do Macroeconomic and Business Risks Matter? Essay III: Macroeconomic Dynamics, Idiosyncratic Risk, and Firms' Security Issuance Decisions: An Empirical Investigation of UK Manufacturing Firms In the first essay, we empirically investigate whether the sensitivity of leverage to firm-specific (idiosyncratic) and macroeconomic risk differs across publicly listed and privately owned firms. We also study the implications of cash reserves-risk interactions for firms' leverage decisions. Using data from the Financial Analysis Made Easy (FAME) database, the analysis is carried out for a large panel of UK manufacturing firms over the period 1999-2008. The results provide significant evidence that UK manufacturing firms use less short-term debt in their capital structure during periods of high risk. This finding holds for both types of risk. The results on the differential effects of risk across public and non-public firms indicate that while the leverage of non-public firms is more sensitive to firm-specific risk in comparison to their public counterparts, the effects of macroeconomic risk on leverage are similar for both types of firms. The results of the

indirect effects of risk show that firms with high levels of cash holdings are more (less) likely to reduce their leverage in periods when firm-specific (macroeconomic) is risk. On the whole, the results that we document in this essay provide strong evidence of the heterogenous sensitivities of leverage to risk across both types of firms and across different levels of firms' cash holdings. Essay II examines how risk affects firms' leverage adjustment decisions. Specifically, in this essay, we study the impact of risk about firms' own business activity and macroeconomic conditions on the speed with which firms adjust their capital structure toward their specific leverage targets. In doing this, we use an annual panel data obtained from the WorldScope file via DataStream for a fairly large sample of quoted UK manufacturing, covering the period 1981-2009. The results suggest that the adjustment is asymmetric and it depends on the magnitude of risk, the type of risk, and whether firms' actual leverage is above or below the target. Further, we find that firms with financial surpluses and above-target leverage adjust their leverage faster when firm-specific risk is low and when macroeconomic risk is high. In contrast, firms with financial deficits and below-target leverage are more likely to align their leverage toward their target in periods when both types of risk are low. Taken as a whole, our results suggest that firms adjust their leverage toward the target very asymmetrically across different levels and types of risk. This finding holds true even when we take into account several firm characteristics known to affect firms' adjustment speeds. The third essay analyzes how risk about firms' own business activity and macroeconomic conditions influences the security issuance decisions of listed UK manufacturing firms appeared on the WorldScope database during the period from 1981-2009. Estimating dynamic panel models using the system GMM estimator, we show that the issuance of new debt is significantly

negatively related to idiosyncratic risk while both the issuance of new equity and the use of internally generated funds (retained earnings) are positively related to the risk. In contrast, we find that all these three sources of financing are significantly negatively associated with macroeconomic risk. Nevertheless, our results suggest that the aggregate dynamics of firms' target leverage are significantly negatively linked with these two types of risk. The results, from the debt-equity choice regression, indicate that the effect of both firm-specific and macroeconomic risk is significant and negative, implying that firms are likely to have low debt-equity ratio in periods when either type of risk is high. Seminar paper from the year 2010 in the subject Economics - Finance, grade: 1.3, University of Regensburg, language: English, abstract: Since Modigliani/Miller's famous theorem (1958) that capital structure is irrelevant for firm valuation, firms' capital structure choice has been one of the most significant subjects in the modern finance theory. The subsequent theoretical literature has found evidence to negate the irrelevance theorem. Most empirical studies applied a static framework and are capable to explain differences in the optimal leverage ratios across firms, using observed leverage ratios as proxies for the optimal target leverage, but do not explain observed differences in firms' leverage ratios itself. One broadly accepted reason for a firm's deviation from their target leverage ratio is the existence of adjustment costs. In the presence of adjustment costs, firms may deviate from their target leverage and find it not cost effective to adjust their leverage ratio frequently or fully within one period, even if they recognize that their existing capital structure is not optimal. This shows the need for developing and using a dynamic approach in order to examine firms' capital structure. The paper is organized as follows. Section 2 provides a brief overview of the three main theories of capital structure.

Section 3 specifies the dynamic partial-adjustment model and describes the variables that may affect the target capital structure as well as the adjustment speed. Section 4 reports the empirical results and Section 5 concludes the paper In 1958 an academic paper on corporate finance written by two professors (Merton Miller and Frances Modigliani, who were later awarded the Nobel prize for their research efforts) was published in The American Economic Review. One prime conclusion of their paper was that the exact form of a firm's capital structure did not affect the firm's value. Later papers by the same two authors and by many others modified the assumptions and changed this conclusion. We now think that capital structure decisions do affect a firm's value and corporate managers should understand better the financing alternatives that are available. One of the most important financial decisions is the decision to buy or lease assets. The leasing industry is large and getting larger.

Unfortunately, it is very easy for a firm to evaluate incorrectly lease alternatives (see Chapter 12). The capital structure decision is one of the three most important financial decisions that management make (the distribution of earnings and the capital budgeting decisions are the other two contenders). Managers should increase their understanding of capital structure alternatives and remember that choosing the best capital structure is an art and not an exact simple calculation. But applying the art can be improved with understanding. Essay from the year 2012 in the subject Business economics - Investment and Finance, grade: 9, Maastricht University (SBE), course: intermediate financial management (IFM), language: English, abstract: Questions 1A) Business risk is the risk to firm’s stockholders without debt. Business risk can be measured by the standard deviation (later referred to as: SD) of “return of capital invested” ROIC= (EBIT (1-T))/Capital. Typical sources of

business risk are factors associated with day-to-day operations of the business, such as input price-, demand-, sales price- and currency variability or the ability to innovate and the extent of operating leverage used. The establishment of long-term contracts can mitigate business risk with suppliers or distributors or with hedging strategies in case of currency risks. On the other hand, financial risk is the risk stockholders bear, because of the use of debt. In the case of debt usage the stockholders bear all the business risk, because debt holders receive a fixed interest payment. 1B/C) The additional risk from the debt can be measured, if one compares the levered beta to the unlevered beta. The levered beta should be higher than the unlevered and therefor react more severe to broad market movements, reflecting the additional risk. Moreover, since the beta is part of the CAPM model, the required return for equity holders rises which makes perfect sense, since equity holders want to be compensated for the additional risk from financial leverage. Leverage increases stockholders ROE, because the denominator of (Net income)/Equity is smaller since V_L consists of debt and equity, in contrast to a all equity financed company. Finally one can compare the SD of a levered and unlevered firm. The higher ROE comes at the cost of an increased SD, because of the higher variability of ROE. The following thesis tries to take benefit of the unique setting of a corporate spin-off transaction in order to investigate capital structure determinants. The study reveals evidence that companies involved in a European spin-off transaction allocate financial leverage ratios according to the pecking order theory. Profitability of post-spin-off companies affects financial leverage ratios negatively. Growth, lower financial distress costs and the size of a company influences the financial leverage ratio positively. No relation is observed between non-debt tax shield and financial leverage. Even

though post-spin-off companies emerging from the spin-off transaction with lower leverages are associated with higher business risk, no evidence is found that risk influences financial leverage ratios. In this paper we analyze factors influencing firm leverage. We use market capital ratio, book capital ratio and book debt ratio as measures of leverage. We compare factors that influencing firm leverage using unbalanced panel data of seven countries: Canada, Denmark, Germany, Italy, Sweden, the UK, and the US. We find that firm size, profitability, tangibility, and market-to-book ratio have significant impact on the capital structure choices of firms. Tangibility is positively related to leverage, while profitability shows a negative significant relation to leverage across all seven countries. More profitable firms tend to borrow less. Size of the firm is positively and significantly related to firms' financial leverage. The impact of the market-to-book ratio varies in the book debt ratio model but shows a negative and significant relation in the market leverage model for all countries except Denmark, which shows an insignificant parameter value. Evidences we find from the seven countries are consistent with the findings in conventional capital structure theories, for example the pecking order theory and the static trade-off theory, i.e. risky firms borrow less. This paper investigates how firms determine the capital structure of a subsidiary that is divested in a spin-off. In a spin-off, the parent divides the assets of the firm and chooses the capital structure for the new, stand-alone entity. Unlike the firms in other capital structure studies, the subsidiary's leverage ratio is its initial capital structure. Thus, the typical explanations for why firms' leverage ratios may deviate from their target ratios do not apply. I therefore use this sample to investigate how firms determine their capital structure. I find that the subsidiary has a leverage ratio lower than the parent but similar to a comparable non-spin-off firm. Also, similar to other firms, the

subsidiary's leverage is negatively related to growth and positively related to its collateral value. However, unlike other firms, leverage is not inversely related to profitability. Further, the difference between the subsidiaries' and comparable firms' leverage ratios is positively related to profitability. These results support the predictions of the trade off theory of capital structure and provide insight into why previous studies find a negative relation between leverage and profitability. This paper examines the capital structure of listed firms in Poland, using firm-level panel data to study the determinants of leverage. Polish firms had extremely low leverage levels, suggesting a growing stock market and a potential reluctance of banks to grant loans to old and risky firms. The empirical exercise finds that large, new, foreign-owned firms, and firms with strong cash positions have higher levels of leverage. Finally, shareholder concentration has a neutral or even a beneficial influence on firm leverage. The nature of ownership may be primarily responsible for this finding. We seek economic interpretations for two well-known empirical regularities. First, it is well known that more profitable firms tend to have lower leverage ratios, a pattern driven by the preference on internal funds by these profitable firms. Some recent theoretical development has used transaction costs or dynamic tax considerations to explain this phenomenon. We show that the phenomenon largely remains even after these factors are controlled for. Second, through both theoretical and empirical illustrations, we show that leverage ratios can revert to mean mechanically regardless of which theory better describes financial decisions; and that opposite inferences can be drawn depending on whether financing decisions or leverage ratio changes are studies. Therefore, leverage ratio changes might not be informative in distinguishing the competing theories. Our finding cautions against the common practice of relying on the dynamics

of leverage ratio changes to draw conclusions on the validity of capital structure theories. This paper examines the timing behaviour of firms in the UK. We estimate intrinsic value of firms' equities and find that managers do indeed time security issue which leads them to deviate away from target leverage levels. We further find that equity mispricing influences issue decisions as well as the issue choice. Equity mispricing increases the likelihood of firms making security issues. In addition, undervaluation increases the probability of firms opting for debt issues instead of equity. Firms also reduce equity and debt levels to reflect equity mispricing indicating that repurchase decisions are also timed. In addition, we find that firms are more likely to issue debt accompanied with equity repurchases due to equity undervaluation and equity issues are supplemented with debt repurchases due to equity overvaluation.

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