Profit Margin And Capital Structure: An Empirical Relationship

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Keywords

Abstract

This study constitutes an attempt to investigate the relationship between debt-to equity ratio and firm's profitability, taking into consideration the level of firms' investment and the degree of market power. The study uses panel data for various industries, covering the period 1995-96. The main conclusions of our study are: a) firms which prefer to finance their investment activities through self-finance are more profitable than firms which finance investment through borrowed capital; b) firms prefer competing with each other than cooperating; c) firms use their investment in fixed assets as a strategic variable to affect profitability.

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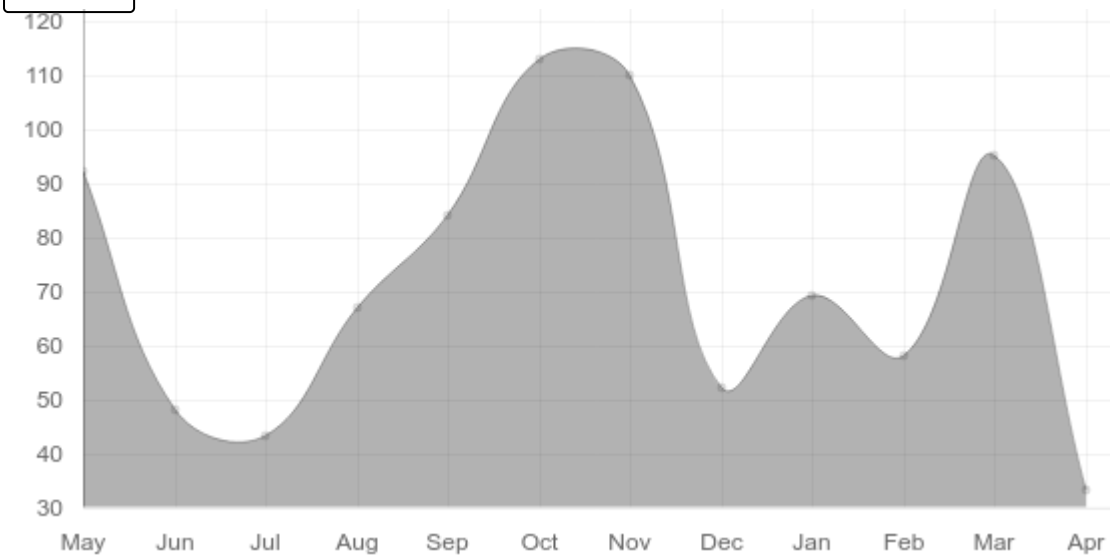

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Published
Apr 1, 2002

DOI https://doi.org/10.19030/jabr.v18i2.2118 (https://doi.org/10.19030/jabr.v18i2.2118)

How to Cite

Eriotis, N. P., Frangouli, Z., & Ventoura-Neokosmides, Z. (2002). Profit Margin And Capital Structure: An Empirical Relationship. *Journal of Applied Business Research (JABR), 18*(2). https://doi.org/10.19030/jabr.v18i2.2118

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Journal of Applied Business Research

Published since 1985

ISSN 0892-7626 (print), ISSN 2157-8834 (online)

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