American Journal of Agricultural Economics / Volume 82, Issue 4 / pp. 920-933

Article

Financial Structure of Farm Businesses under Imperfect Capital Markets

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First published: 01 November 2000
https://doi.org/10.1111/0002-9092.00091

Abstract

Recent finance studies have considered whether gaps between a firm's costs of internal and external sources of investment funds, arising from capital market imperfections, influence its investment behavior and funding preferences. This study tests the applicability of the pecking order and partial adjustment theories of financial structure to farm businesses by fitting a set of simultaneous financial equations with farm panel data from Illinois. Model results indicate that Illinois farms adjust to long-run financial targets for equity, debt, and leasing, but that additional financing needs follow a pecking order that is stronger for farms with greater asymmetric information problems