Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy

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Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy

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Abstract

In the last several years, there has been increased theoretical emphasis on the agent-principal problem as it applies to corporate finance. This paper is an attempt to empirically test for the presence of the agency costs and their relation to the debt policy of corporations. We find that firms with higher insider ownership have greater debt ratios than firms with lower insider ownership, which may be explained by the agency costs of debt and/or the agency costs of equity. Other regression results tend to confirm the theoretically optimal relationships put forth by Myers. We find that high-growth firms use less debt rather than more debt, high-operating-risk firms use more debt rather than less debt, and firm size appears to be uncorrelated to the level of debt.

I. Introduction
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