







Q



to the latest two volumes for 14 days

66 Citations

Share

Metrics

References

Read this article

Abstract

Full Article

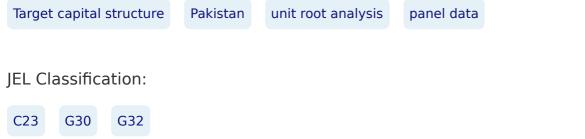
Reprints & Permissions

Figures & data

Grounding concepts of the two competing theories of capital structure (trade-off theory, pecking order theory) are quite opposite to each other. Trade-off theory claims that there is an optimal (target) capital structure and firms try to achieve that optimal (target) point. Whereas pecking order theory argues that there is no optimal (target) capital structure but the firms follow a specific pattern of financing. Using the two competing theoretic frameworks, this study applies Fisher-type panel unit root test to an unbalanced panel data of 13 115 firm-year observations of nonfinancial firms listed on Karachi Stock Exchange Pakistan spread over 38 years (1973–2010). Overall panel test results, for short-term, long-term, as well as total leverage support trade-off financing behaviour while individual firm results do not. Individual firm results show that only 16% of the firms have short-term target, 25% of the firms have long-term target and 12% of the firms have total target leverage ratio. Further, industry results

explain that most of the industries do have target leverage ratios and classification of data into profitable and lossmaking firm-year observations explains that profitable firms clearly follow trade-off financing behaviour while the results for lossmaking firms do not support trade-off financing behaviour. Our study indicates that it is important for the government to ensure policies to develop well-balanced financial markets and to improve accountability systems.

KEYWORDS:



ORCID



Notes

¹ http://www.sbp.org.pk/ecodata/NPL.pdf of State Bank of Pakistan reports PKR 594 billion (approximately US\$ 7 billion) as nonperforming loans of banking sector in Pakistan. Apex court of Pakistan is currently hearing a case in this regard.



Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions



Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG