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The empirical determinants of target capital structure and adjustment to long-run target: evidence from Canadian firms

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Abstract

The main objective of this article is to provide more insight into the empirical determinants of target capital structure of Canadian firms. Panel data covering the period 1996 to 2004 was analysed using a much stronger estimation technique, that is, a dynamic regression model. The results show that profitability and tangibility have a positive and significant impact on the firm leverage, whereas growth opportunities and size have a negative influence on the leverage of Canadian firms. The study also suggests that firms have long-term target leverage ratios, but the speed of adjustment to the target leverage ratios is relatively slow in the context of Canadian firms.

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