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ON CORPORATE CAPITAL STRUCTURE ADJUSTMENTS

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Abstract

Recent research has examined asymmetries in firms' adjustments toward target leverage. Assuming firms mainly adjust their debt levels, Byoun (2008) finds that firms adjusting most quickly possess two important characteristics: above-target debt and a financing surplus. Using alternative models allowing for adjustments in both debt *and* total assets, we still find evidence of asymmetries in leverage adjustments, but that firms adjusting fastest have above-target leverage and a financing deficit. Our paper shows how alternative assumptions about leverage dynamics may lead to different conclusions about target adjustment behavior.

JEL Classification: G32.

Keywords: Capital structure; Dynamic trade-off theory; Partial adjustment model; Asymmetric adjustment; Model specification.

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