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The influence of cash flow volatility on capital structure and the use of debt of different maturities

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**Abstract**

The empirical literature on the relationship between capital structure and firm cash flow volatility is inconclusive. We explore this relationship using several measures of a firm's cash flow volatility and econometric methods that account for the non-linear relationship of proportional variables. Overall, our evidence indicates that ceteris paribus a one standard deviation increase from the mean of cash flow volatility implies an approximate 24% decrease in the long-term debt ratio, a 26% decrease in probability of holding debt with over 10 years to maturity, and a 39% increase in the probability of holding neither short nor long term debt.

[1] We thank participants at Mona Yaghoubi's PhD proposal, the 2014 Victoria University of Wellington Brown Bag Seminar, the 2014 Auckland Finance Meeting and the 2015 New Zealand Finance Colloquium and PhD Symposium. All remaining errors are our own.

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