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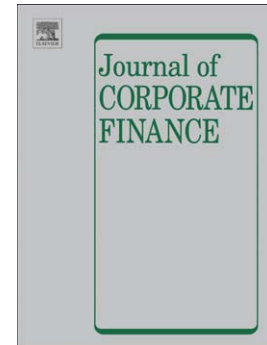
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Supply of Capital and Capital Structure: The Role of Financial Development[†]

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Abstract

We explore the effect of financial development on corporate capital structure and the tightness of financial constraints that firms face. We employ an econometric technique which allows us to explicitly test for convergence in capital structure. This technique increases the power of our statistical tests. In doing so, we identify a group of convergent firms. The driving force of convergence is financial development, which positively affects the firms' leverage ratio. We also identify a group of firms, whose leverage is not affected by financial development, because they are financially constrained.

JEL Classification: G30; G32

Keywords: Capital structure; Convergence; Financial constraints; Financial development

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