Accepted Manuscript

Title: Long-term persistence in corporate capital structure: Evidence from India

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PII: S0275-5319(17)30009-0
DOI: http://dx.doi.org/doi:10.1016/j.ribaf.2017.07.094
Reference: RIBAF 784

To appear in: *Research in International Business and Finance*

Received date: 2-1-2017
Accepted date: 3-7-2017

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ABSTRACT

This study examines the stability of corporate capital structure in a sample of listed Indian firms for the period 1988 to 2015. In general, the firms do not maintain a stable level of leverage over long durations. The firm specific temporal variations in leverage are large and significant. We find that capital structure models that incorporate time varying firm effects perform better in explaining the variation in leverage than those that employ time invariant firm effects. The cross-sectional distribution of leverage also exhibits considerable variations over time. The quartile decompositions of leverage cross-sections reveal that migrations across leverage quartiles are pervasive. Only the firms with low leverage ratios ratio exhibit some persistence in their leverage ratios. High leverage ratios are not rare but are invariably transient.

Keywords: Capital structure, panel regression, book leverage, persistence, firm fixed effects