

**THE DETERMINANTS OF CAPITAL STRUCTURE: A STUDY OF
JORDANIAN INDUSTRIAL CORPORATIONS**

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**THE DETERMINANTS OF CAPITAL STRUCTURE: A STUDY OF
JORDANIAN INDUSTRIAL CORPORATIONS**

A thesis submitted to the College of Business in partial
fulfillment of the requirements for the
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By

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ABSTRACT

The research in the area of capital structure in the emerging markets like Jordan and Malaysia has only recently appeared. Tradition factors such as profitability, tangible assets share, the company size, taxes and growth opportunities were shown to influence the capital structure of firms. Apart from traditional factors, the researchers also revealed the influence of specific factors such as an analysis of the Hungarian companies has shown that companies whose main shareholder is the state or those in the industrial sector of the economy, have a bidder share of debt.

Thus, this study provides the determinants of Jordanian Industrial firms' capital structure since Jordanian capital market is undergoing a comprehensive capital market reforming policy since 1978. Market capitalization of subscribed share is currently around JD 37.5 billion, to around JD 286 million in 1978. Listed companies rose from 66 in 1978 to 260 in 2008. The findings of this study suggest that the firm size, liquidity, profitability and growth of the Jordanian companies exert significant effect on the capital structure choice. Firm size has been found to be a factor in determining capital structure (Scott and Martin, 1976; Ferri and Jones, 1979; Booth et al., 2001). In a study of factors influencing capital structure of the company, Rajan and Zingales (1995) reported that an increased debt ratio is associated with firm size. The large firm hold more diversified portfolio and have better access to credit markets, thus able to support more debt than small firms.

Key Words: Capital structure, Jordanian industrial companies, determinants.

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LIST OF ABBREVIATIONS

M&M	Modigliani and Miller's Theory
ASE	Amman Stock Exchange
SDC	Securities Depository Center
JSC	Jordan Securities Commission
vs	versus
e.g	example
H ₀	Null hypothesis
H ₁	Alternative hypothesis
LEV/Y	Leverage
S	Size
PROFIT/PG	Profitability
GROWTH/GR	Growth Rate
LG	Liquidity
R ²	R-square
S.D/Std.Dev	Standard Deviation
Prob	Probability
Var.	Variable
et al.	With friends
F	One-way ANOVA

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

There were voluminous researches on the analysis of the companies' choice in the determinants of the debt to equity ratios have been carried out on emerging markets by capital structure researchers. These studies created lot of interest today because of the lasting substantial capital market institutions differences, and the factors on investment risk that differ from those of countries with develop market economies. So, the questions of evaluating the degrees of influence similar determinants have on the long term financial development of companies operating in different structures of the capital market is being posted. Beside there different structures in capital market, the traditional and specific factors were affect capital structure decision were highlighted. The traditional factors include profitability, taxes, tangible assets, growth opportunities and the specific factors include ownership of companies which have bigger share of debt. There are substantive issues when assessing the role of capital structure and its potential contribution in maximizing company value on the emerging markets. Thus, this study would provide evidence on the determinants capital structure, that is the choice of debt to equity of Jordanian industrial firms.

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