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# Determinants of capital structure of Chinese-listed companies

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### Abstract

This paper develops a preliminary study to explore the determinants of capital structure of Chinese-listed companies using firm-level panel data. The findings reflect the transitional nature of the Chinese corporate environment. They suggest that some of the insights from modern finance theory of capital structure are portable to China in that certain firm-specific factors that are relevant for explaining capital structure in developed economies are also relevant in China. However, neither the trade-off model nor the Pecking order hypothesis derived from the Western settings provides convincing explanations for the capital choices of the Chinese firms. The capital choice decision of Chinese firms seems to follow a “new Pecking order” retained profit, equity, and long-term debt. This is because the fundamental institutional assumptions underpinning the Western models are not valid in China. These significant institutional differences and financial constraints in the banking sector in China are the factors influencing firms' leverage decision and they are at least as important as the firm-specific factors. The study has laid some groundwork upon which a more detailed evaluation of Chinese firms'

study has laid some groundwork upon which a more detailed evaluation of Chinese firms' capital structure could be based.



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