

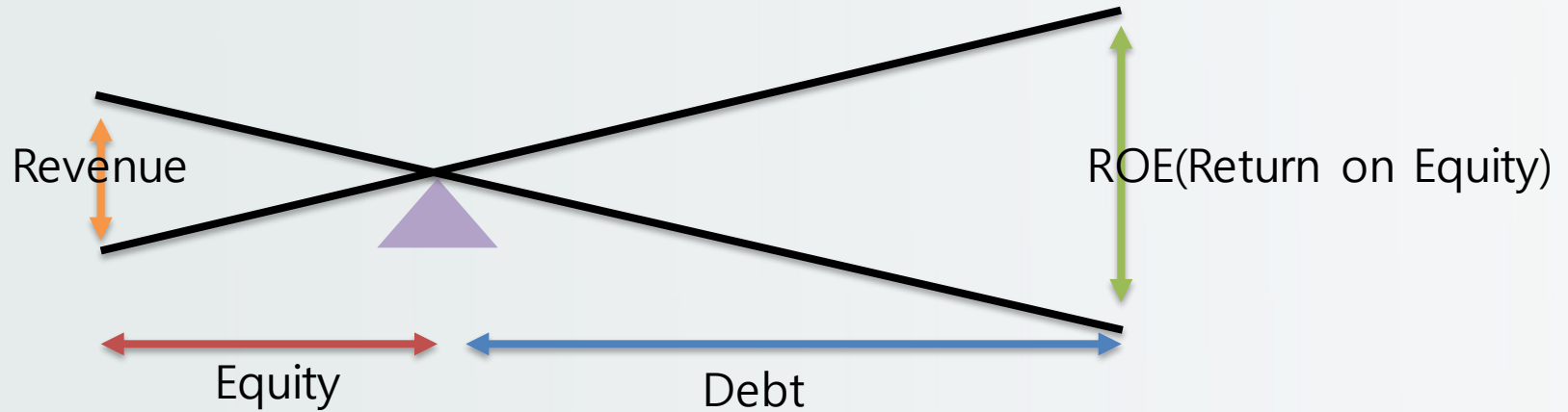
Research Proposal

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Background

- Company wants to maximize their firm-value



- Company can maximize their firm-value with high-debt
- What factors affect on Capital Structure?
 - The cost of Capital, Credit ratings, Growth rate, Tax exposure and so on
 - Collateral value of asset



Research Question

What is the relationship between Asset liquidity and Capital structure in each business life cycle(i.e., start-up, growth, mature, shake-out, decline)?



Literature Review

- Debates on impact of liquidity of a firm's assets on optimal leverage
 - Asset liquidity is an important determinant of capital structure.(Shleifer and Vishny, 1992)
 - The value of real assets influence on capital restructuring (Flor, 2007)
- Positive Relationship between Asset liquidity and leverage
 - Asset liquidity increases optimal leverage (Sibilkov, 2009)
 - Asset redeployability is important driver of leverage of firms (Campello and Giambona ,2013)
- Contribution
 - Many researchers has studied this relationship by industries, by countries and by firm-sizes,
 - But has not studied in each business life cycle stages!



Hypothesis

- At aggregate level, there is positive relationship between asset liquidity and leverage. Asset liquidity increases the amount of capital that firm can borrow and optimal leverage.
- Firms in early business life cycle stage have stronger positive relationship than firms in decline stage.



Data

- SEC – EDGAR (<https://www.sec.gov/edgar>)
 - Company financial statements, annual reports data from 1984
 - Offer transaction data and merger and acquisition data
- Others
 - Morningstar, Bloomberg (Financial Statistics)



Computation & Methodology

➤ Computation

Liquidity Index

Using the two methods motivated
By Hernan O. and Gordon M.(2014)

1. The number of potential buyers for a firm's asset minus the number of rival firms in the industry that have debt ratings.
2. The average book leverage net of cash of rival firms in the industry

Business Life Cycle

Using Cash Flow patterns
(Dickinson, 2011)

The combination of a firm's net operating, investing, and financing cash flow and using the sign(positive or negative)

➤ Methodology

Multiple Linear Regression

Testing the relationship between liquidity index and capital structure

Testing with sub-categories of capital structure(i.e. leverage, secured debt, unsecured debt)



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