

Linkage between Political Connection and Speed of capital Structure Adjustment: Evidences from Thai Companies

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ABSTRACT

To extend knowledge about the impact of political connection on business in Thailand, this paper examines the capital structure adjustment of the politically connected firms and non-politically connected firms by comparing their speed of capital structure adjustment for both types of firm. Conceptually, firms with political connection should have some advantage from the connection so they should be more successful in adjusting capital structure to the optimal point, which can enhance their firms' value. We employ unbalanced panel data set of Thai firms listed in the Stock Exchange of Thailand between the period of 2002 - 2011 and employ Generalized Method of Moments (GMM) to examine the relationship between firms' characteristics and speed of adjustment in the context of political connection. The result supports Trade-off theory of capital structure which suggests that Thai listed companies have long term target debt ratio. Moreover, result confirms that the politically connected firms in Thailand can adjust their capital structure faster than the non-politically connected firms.

Key word: capital structure, speed of adjustment, political connection