

Macroeconomic Condition and Capital Structure Adjustment Speed:

A Case of Thailand

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June 2012

ABSTRACT

This study aims to examine the speed of adjustment under condition of macroeconomic factor, which is real GDP, on the speed of capital structure adjustment towards target leverage in Thai stock market using dynamic partial-adjustment models across good and bad states. We find consistent evidence with a prediction from the previous studies that firms tend to adjust their leverage towards targets faster in good macroeconomic state. In addition, we estimate the model with macroeconomic and microeconomic and their interaction term factors i.e., GDP, market dividend yield. Our results indicate that macroeconomic and microeconomic variables can significantly explain leverage and their interaction term has more explanatory power than the individual one.

Keywords: Capital structure; leverage; Dynamic Partial Adjustment; Speed of adjustment; Macroeconomic conditions