

How do Firms Finance their Investments?

The relative importance of equity issuance and debt contracting costs

Empirical Evidence in Thailand

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May 2010

ABSTRACT

Modigliani and Miller (1958) stated that, information transparency does not matter since the capital structure does not affect the firm's value in the perfect world. This brought up many subsequent ideas in which the market is imperfect. In recent years, many finance studies predict that information frictions play an important role in the firm's financing decisions. Thus, this paper aims to explain the role of information asymmetries that associated with types of investment, firm characteristics and component of financing deficits by employing 356 firms listed on the Stock Exchange of Thailand (SET) for the period 1998 - 2008. The empirical results find that the information is an important factor in considering firms' financing choice. However, the results do not give a strong evidence that firms always prefer to use debt over equity to fund the investment which it breaks the pecking order model. Actually, equity is the major choice when firms raise fund to finance fixed asset and when firms are small.