

CAPITAL STRUCTURE AND ITS DETERMINANTS

By:

SARITA RANA MAGAR

Shanker Dev Campus

Campus Roll No.: 84/062

T.U. Regd. No.: 7-1-274-507-2000

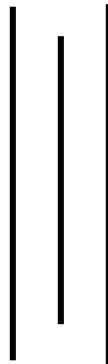
Second Year Symbol No.: 4827

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

April, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

SARITA RANA MAGAR

Entitled:

CAPITAL STRUCTURE AND ITS DETERMINANTS

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....
Rishi Raj Gautam
(Thesis Supervisor)

.....
Prof. Bisheshwor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Ghyan Mani Adhikari
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by
SARITA RANA MAGAR

Entitled:
CAPITAL STRUCTURE AND ITS DETERMINANTS

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Capital Structure and Its Determinants**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of **Rishi Raj Gautam** and **Ghyan Mani Adhikari** of Shanker Dev Campus.

.....

Sarita Rana Magar

Researcher

T.U. Regd. No. : 7-1-274-507-2000

Campus Roll No. : 84/062

Second Year Symbol No.: 4827

ACKNOWLEDGEMENT

Firms may have different capital structure as per their strategies and capabilities. The strength and weakness can be seen by their capital structure. The capital structure is that part which I am interested on. So, I choose this chapter as a research work. My senior's works and research helped me a lot to get the achievement toward this study. So I think that I am a fateful student to get valuable support, guidance and help from numerous personalities. Without their helps this study could have not been completed in this form.

First of all I would like to express my great thanks to Tribhuvan University, Kathmandu, Nepal for having started a thesis in partial fulfillment of the requirements for master's degree in Business studies (MBS) that enhances quality of qualified master's degree holders in respective specialized field increasing understanding level of the researcher.

I wish to express my deep respect and profound gratitude to the respected supervisor lecturer Rishi Raj Gautam and Gyan Mani Adhikari for their support and encouragement.

I would like to express my sincere gratitude to brother Lhakpa Gelu Sherpa, lecturer, Kathmandu college of management for his invaluable guidance, suggestion and support throughout the study.

It's always pleasure to appreciate entire campus faculties whose inspiration and kind guidance facilitate particularly to complete the research.

I am very much obliged to library of Shanker Dev campus and security Board of Nepal for providing data as well as suggestions to bring the output.

I would like to express deep gratitude to my family members, close relatives and friends for their inspiration and support in addition to generous guidance in bringing this research in this form as well as creating favorable environment to add value in the research.

Finally, the research is likely to stand in as a one of the quality resource products in the respective issue. I am positive and confident about the utilization of the research in course of adding value in the related field.

TABLE OF CONTENTS

Recommendation		
Viva Voce Sheet		
Declaration		
Acknowledgement		
Table of Contents		
List of Tables		
Abbreviations		
CHAPTER – I	INTRODUCTION	Page No.
1.1	Background of the Study	1
1.2	Statement of the Problem	2
1.3	Objectives of the Study	4
1.4	Limitations of the Study	4
1.5	Organization of the Study	5
CHAPTER – II	REVIEW OF LITERATURE	
2.1	Review of Capital Structure Theories	6
2.1.1	Behavioral Theories	6
2.1.2	Contemporary Theories	12
2.2	Review of Empirical Studies	18
2.2.1	Review of Foreign Studies	18
2.2.2	Review of Related Literature during 1960s and 1970s	20
2.2.3	Review of Related Literature during 1980s and 1990s	24
2.2.4	Review of Recent Empirical Works	30
2.3	Review of Nepalese Studies	31
CHAPTER – III	RESEARCH METHODOLOGY	
3.1	Research Design	35
3.2	Nature and Sources of Data	36

3.3 Selection of Firms	36
3.3 Period of the Study	37
3.4 Method of Analysis	37

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Statistics Analysis of the Variables	42
4.2 Capital Structure and Its Determinants	44
4.2.1 Analysis of Relationship among the Variables	44
4.2.2 Determinants of Capital Structure	46
4.3 Major Findings of the Study	53

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	55
5.2 Conclusion	56
5.3 Recommendation	57

Bibliography

Appendices

LIST OF TABLES

Table No.	Title	Page No.
2.1	Fundamental Factors Affecting Capital Structure Design	21
2.2	Empirical Studies and Their Findings Regarding the Determinants of the Capital Structure	22
2.3	Capital Structure Determinants Examined during 1980s	25
2.4	Capital Structure Determinants Examined in Studies of 1990s	27
2.5	The Capital Structure and Its Determinants in the Nepalese Context	33
3.1	Selection of Sample Firms	37
3.2	Priori Hypothesis: Related to Leverage	39
4.1	Means and Standard Deviation of Variables of Selected Firms	43
4.2	Correlation of Dependent and Independent Variables	45
4.3	Result of Simple Regression Analysis (Model I)	47
4.4	Result of Multiple of Regression (Model II)	49
4.5	Result of Simple Regression Analysis (Model III)	50
4.6	Result of Multiple of Regression (Model IV)	52