

The Impact of Dynamic Trade-Off Theory on Capital Structure Decisions of Listed Companies in Sri Lanka

Madhushan, H.A.S.¹ and Abeywardhana, D.K.Y.²

^{1,2} *Department of accountancy, University of Kelaniya*
Sachirax235@gmail.com¹ dilyapa@kln.ac.lk²

Abstract

Dynamic trade-off theory proposes that firms may deviate from their target capital structure but they will exhibit an adjustment behavior towards that target. The Objective of this study is to adjust Listed Company's Short Term Debt (STD) and Loan Term Debt (LTD) ratios towards the respective target ratios.

In this study Dependent Variable is debt finance and independents variables are Effective Tax Rate, Non Debt Tax Shield, Growth Opportunities, Assets Tangibility, Profitability. This study is based on period of ten years from 2011 to 2020 and data will be collected from 20 listed companies. regression analysis will use to analysis the data.

The study finds that firms that are far from the target exhibit faster adjustments than firms close to the target. As a conclusion I expect firms are adjusting their capital structure to the target.

Key words: *Dynamic panel data models, Dynamic trade-off theory, Capital Structure, Listed Companies.*