



*This thesis has empirically tested the question whether actual debt ratios behave as if firms readjust to their previous debt ratios or the firms permit their debt ratios to fluctuate with stock price of the company listed in LQ 45 index of Jakarta Stock Exchange using Welch (2004) approach. The period under investigation ranges from December 2001 to December 2006. It is found that the corporate debt ratios at any fixed point in time are largely transient, commoving with stock returns. Moreover, the firms are unlikely inactive, and related to the issuing activity, they just do not choose to counteract their stock returns.*