

TABLE OF CONTENTS

ABSTRACT	i
TABLE OF CONTENTS	ii
LIST OF GRAPHIC AND TABLE	v
Chapter I INTRODUCTION	1
1.1. Background	1
1.2. Problem Statement	5
1.3. Research Questions	5
1.4. Research Objectives	6
1.5. Benefits of the Research	7
1.6. Research Limitations	8
Chapter II LITERATURE REVIEW	9
2.1. Capital Structure Theory	9
2.2. Optimal Capital Structure	10
2.3. Risk and Leverage	13
2.3.1. Business Risk	14
2.3.2. Financial Risk	15
2.4. Trade-off Theory	16
2.4.1. Tax Shield	18
2.4.2. Financial Distress	18
2.5. Pecking Order Theory	19
2.6. Agency Theory	21
2.7. Determinants of Capital Structure and Hypotheses	23
2.7.1. Growth Rate	24
2.7.2. Profitability	25
2.7.3. Company Size	26
2.7.4. Liquidity	27
2.7.5. Interest Coverage Ratio	29
2.7.6. Dividend Payout Ratio	30
Chapter III DATA & METHODOLOGY	32
3.1. Data and Sample	32

3.1.1.	Data Selection	32
3.1.2.	Data Selection Method.....	33
3.2.	Measurement of Variables	35
3.2.1.	Debt Ratio (DR).....	35
3.2.2.	Growth Rate (G)	36
3.2.3.	Company Size (SIZE).....	36
3.2.4.	Liquidity (LQ).....	37
3.2.5.	Interest Coverage Ratio (INCOV)	37
3.2.6.	Profitability (NI)	38
3.2.7.	Dividend Payout Ratio (DPR)	38
3.3.	The Model.....	39
3.4.	Regression Models.....	40
3.4.1.	Pooled Regression Model	40
3.4.2.	Fixed Effect Model	41
3.4.3.	Random Effect Model.....	41
3.5.	The Models' Comparison	42
3.5.1.	Fixed Effect Model and Random Effect Model Comparison Hausman Test	42
3.5.2.	Pooled Regression Model and Random Effect Model Comparison Breusch Pagan Lagrange Multiplier Test.....	43
3.5.3.	Pooled Regression Model and Fixed Effect Model Comparison Redundant Fixed Effect – Likelihood Ratio Test	43
3.6.	Classical Assumption Test.....	44
3.6.1.	Multicollinearity Test	45
3.6.2.	Autocorrelation Test	45
3.6.3.	Heteroscedasticity Test	45
3.6.4.	Normality Test	46
Chapter IV	RESULTS & ANALYSIS.....	47
4.1.	Statistic Descriptive	47
4.2.	Panel Data Regression	49
4.2.1.	Fixed Effect Model and Random Effect Model Comparison Hausman Test	52

4.2.2. Pooled Regression Model and Random Effect Model Comparison Breusch Pagan's LM Test	53
4.2.3. Pooled Regression Model and Fixed Effect Model Comparison Redundant Fixed Effect – Likelihood Ratio Test	54
4.3. Classical Assumption Test.....	55
4.3.1. Multicollinearity Test	56
4.3.2. Autocorrelation Test	57
4.3.3. Heteroscedasticity Test	58
4.3.4. Normality Test	60
4.4. Analysis	62
Chapter V CONCLUSION	68
5.1. Conclusion	68
5.2. Limitations	70
5.3. Recommendations.....	71
REFERENCE.....	72
APPENDIX	77

LIST OF GRAPHIC AND TABLE

Table 2.1.	Capital Structures Percentages, , 2005 – Six American Industries Ranked by Common Equity Ratio	11
Figure 2.1.	Trade off Theory – The Effect of the Leverage on the Value	17
Table 2.2.	Summary of Hypothesis	31
Table 3.1.	Z Score Illustration	34
Table 3.2.	Summary of Determinants Measurement	39
Table 4.1.	Statistic Descriptive	48
Table 4.2.	Panel Data Regression for Three Models	50
Table 4.3.	Hausman Test	52
Table 4.4.	Breusch Pagan’s LM Test	54
Table 4.5.	Redundant Fixed Effect – Likelihood Ratio Test	55
Table 4.6.	Multicollinearity Test	57
Table 4.7.	Autocorrelation Test	58
Table 4.8.	Heteroscedasticity Test	59

Table 4.9.	Normality Test	60
Table 4.10.	Panel Data Regression for Three Models	62
Table 4.11.	Research Questions Answer	66