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Dynamic Optimal Capital Structure and Technical Change¹

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ABSTRACT

The importance of capital structure is explored by comparing existing archetypes of financial systems through a new methodological application. Differences in firms' cost of capital show that capital structure is relevant in R&D and other investment decisions. The conclusions are that 1) there are large and also unexpected cross-country differences in determinants to optimal capital structure; 2) observed leverage is often different from target in both equity (or stock market based) and debt (or bank based) dominated systems; 3) faster speed towards the target is observed in the equity based system indicating a higher flexibility.

Keywords: Capital structure, dynamic adjustment, panel data, optimal leverage, financial markets, cross-country comparison, technological change, creative destruction.

JEL Classification Numbers: C23, C51, G32, O16, O31

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