

Abstract

The essays in this thesis investigate issues related to the capital structures of private companies. The topics of the papers vary from the determination of the factors influencing the choice of financing of non-financial companies to the effect of capital structure regulations on the behavior of financial institutions.

In the *first essay* I (and Qaizar Hussain) examine the capital structure of listed firms in Poland, using firm-level panel data to study the determinants of leverage. Polish firms had extremely low leverage levels, suggesting a growing stock market and a potential reluctance of banks to grant loans to old and risky firms. The empirical exercise finds that large, new, foreign-owned firms, and firms with strong cash positions have higher levels of leverage. Finally, shareholder concentration has a neutral or even a beneficial influence on firm leverage. The nature of ownership may be primarily responsible for this finding.

The *second essay* studies the capital structures of listed companies in Hungary. I find that the macroeconomic policy of the Hungarian government, together with credit market segmentation and bank regulation, were prime factors behind the credit crunch in the enterprise sector. The negative relationship between leverage and proportion of tangible assets was primarily caused by the lack of long-term debt financing. The relationship between leverage and the company size provides some indication of the importance of trade credits for the companies. The more profitable companies had less debt than less profitable ones. Manufacturing firms and firms with the state among major shareholders enjoyed higher levels of debt financing relative to other companies.

The *third essay* uses a dynamic capital structure model to examine the determinants of companies' target financial leverage and the speed of adjustment to it in two transition economies, the Czech Republic and Bulgaria. The results indicate that the Bulgarian corporate credit markets were less supply-constrained than those of the Czech Republic. Bulgarian companies adjusted much faster to the target leverage than Czech firms. The speed of adjustment related positively to the distance between target and observed ratio for Bulgarian companies while the relationship was neutral for Czech companies. The conservative policies of Czech banks and the exposure control were likely responsible for the slower adjustment among the larger companies while the opposite were true for Bulgarian banks and companies.

The *fourth essay* adopts a contingent-claim valuation framework to investigate the role of subordinated debt in alleviating the moral hazard problem in banking and providing the regulator with the information on the risk of bank assets. The incorporation of bankruptcy cost in the framework of the analysis provides some new evidence about the potential role of subordinated debt. The extent of market discipline of subordinated debt critically depends on its relative magnitude to senior debt and bankruptcy costs. Under specific conditions, subordinated debt prices are found to provide additional information about the value of bank assets relative to equity prices. The credibility of existing subordinated debt proposals is also discussed. The results indicate the critical role of the regulator's judgment in interpreting and acting upon information from subordinated debt prices.

Keywords: Poland; Czech Republic; Hungary; Bulgaria; Capital Structure; Leverage; Stock Market; Dynamic Adjustment Model; Bank; Subordinated Debt; Bankruptcy Costs; Market Discipline; Deposit Insurance.

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