



UNIVERSITY OF STRATHCLYDE

Department of Accounting and Finance
M.Sc. Finance
(14th Intake - Full Time)

Research Project Number 1
Determinants of Capital Structure

Margareth Kamugisha
Registration Number: 200856125

Submitted in Partial Fulfilment of the Requirements
for the Degree of M.Sc. Finance

September 2009

ABSTRACT

The objective of this study was to build a model that will assist managers in determining the factors that influence decisions on Capital Structure. Therefore, the determinants of the Capital Structure decisions of 100 UK non-financial companies listed in the Financial Times All-Share Index covering the period from 1993 to 2006 has been critically analyzed.

The data stream provided for this study included both, accounting data on firms and the market value of equity. Six theories in literature review were considered. Multiple Regressions Analysis was performed on the gearing being a dependent variable against a set of independent variables used as Proxies. The independent variables used are Firm Size, Asset Tangibility, Profitability, Growth Opportunities and Volatility of Earnings. Both dependent variable and independent variables were determined by computing the average over five years from 1993 and 2006.

In this research, it was observed that the Firm Size, Asset Tangibility, and Volatility of Earnings are positively correlated with gearing. On the other side, Profitability and Growth Opportunities is negatively correlated with gearing. The signs of these correlations signify that the previous empirical papers and theories reviewed provide sufficient explanation on the capital structure of UK companies.

The p-value of the model is significant which implies that the independent variables explain the model.