The Effect of Capital Structure Changes on Firm Value under Different Risk Levels: Evidence from Jordanian Market

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Abstract

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The objective of this study is to investigate the impact of capital structure changes on firm value in the Jordanian corporations under different levels of systematic-risk. It has sampled 70 non-financial companies listed and traded in Amman Stock Exchange over the period from 1998 to 2004. The firms included in the study were then classified into three groups: firms with high, medium, and low beta. Using an ordinary least square regression to analyze the data, the results indicated that change in firm's capital structure has a statistically significant negative effect on changes in firm's market value for the high-risk and low-risk firms only; the negative relationship reported in this study may suggests that extensive use of debt for high-risk and low-risk firms affects firm's market value negatively and that these firms are not able to realize the main benefit from using debt financing. The study recommends that the non-financial Jordanian companies, with respect to their systematic-risk, should take into consideration the main factors that are found significant by the study to affect their market values.