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Does the Source of Capital Affect Capital Structure?

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Abstract

Prior work on leverage implicitly assumes capital availability depends solely on firm characteristics. However, market frictions that make capital

structure relevant may also be associated with a firm's source of capital. Examining this intuition, we find firms that have access to the public bond markets, as measured by having a debt rating, have significantly more leverage. Although firms with a rating are fundamentally different, these differences do not explain our findings. Even after controlling for firm characteristics that determine observed capital structure, and instrumenting for the possible endogeneity of having a rating, firms with access have 35% more debt.
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