



Finance and Economics Discussion Series: Capital Structure and Firm Performance: A New Approach to Testing Agency Theory and an Application to the Banking Industry (Paperback)

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Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.Corporate governance theory predicts that leverage affects agency costs and thereby influences firm performance. We propose a new approach to test this theory using profit efficiency, or how close a firm's profits are to the benchmark of a best-practice firm facing the same exogenous conditions. We are also the first to employ a simultaneous-equations model that accounts for reverse causality from performance to capital structure. We also control for measures of ownership structure in the tests. We find that data on the U.S. banking industry are consistent with the theory, and the results are statistically significant, economically significant, and robust.



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