

ABSTRACT

Multinational Corporations (MNCs) are generally financed with a mixture of internal debt and equity from the parent corporation. Yet, financial theory has relatively little to say regarding the capital structure and its determinants in an international setting. This paper empirically examines the major determinants of capital structure decisions of Multinational Corporations listed on the Karachi Stock Exchange for the period 2005-2014. The data was studied using panel data regression analysis. Results suggest that apart from traditional determinants such as profitability, tangibility, size, Non Debt Tax Shield (NDTS) etc, specific international factors such as political risk, exchange rate risk, agency costs and bankruptcy costs are relevant to the multinational capital structure decision. The results are broadly consistent with theory. It is therefore recommended that the management of listed MNCs in Pakistan should always consider their positions using these capital structure determinants as important inputs before embarking on debt financing decision.

KEYWORDS: MNCs, Leverage, Political risk, Bankruptcy costs, Agency costs

JEL CLASSIFICATION: G31, G32, H63, F23