
**RELATIONSHIP BETWEEN FINANCIAL LEVERAGE AND
FIRM FINANCIAL SPECIFIC CHARACTERISTICS:
EVIDENCE FROM PAKISTAN STOCK EXCHANGE**



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ABSTRACT

This study is focused towards investigation of relationship prevailing between financial leverage and firm financial specific characteristics. To investigate this relationship evidence has been collected from Pakistan stock exchange. The study formulated two groups in order to collect data from Pakistan stock exchange. For this purpose, sample of 71 Low Capitalized Companies and 71 high capitalized companies were included in the study. The study collected data for each company from 2010 to 2016 on annual basis. The variables used for study are Long-Term Debt, Short-Term Debt, Current Ratio, Return on Assets, Return on Equity, Tobin's Q, Earnings Per Share, Firm Age and Firm Size.

Hausman test is applied to select appropriate model from random model or fixed model to investigate the formulated objectives and hypothesis. The results of fixed effect model for Low Capitalized Companies suggests that Long-Term Debt, Short-Term Debt, Firm Size and Firm Age are significantly influencing ROE, ROA, EPS, and Tobin's q except Short-Term Debt is not responsible for significantly influencing ROE, further firm age and firm size are also not responsible for significantly influencing current ratio. The results of fixed effect model related to high capitalized companies suggests that Long-Term Debt, Short-Term Debt, Firm Size, and Firm Age are responsible for significantly influencing ROE, ROA, EPS, and Tobin's q except firm age is not responsible for significantly influencing ROA, Long-Term debt is not responsible for significantly influencing Tobin's q, and Firm Age is not responsible for significantly influencing current ratio.

Keywords: Pakistan Stock Exchange, EPS, ROA, ROE, Tobin's Q, Financial Leverage.