

THE SYSTEMATIC RISK AND EFFECT OF LEVERAGE IN
SELECTED CORPORATIONS OF PAKISTAN



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ABSTRACT

The research has been conducted on *SYSTEMATIC RISK AND EFFECT OF LEVERAGE IN SELECTED CORPORATIONS OF PAKISTAN*, under the constant guidance and supervision of AURANGZEB KHAN. This project was undertaken by Fozia Khanum, BBA (Hons).

The current research is comprehensive study of the Systematic Risk and Effect of Leverage in Corporate Sector of Pakistan.

Important risk factors that have been covered in the study are Credit Risk, Market Risk, Operational Risk, Liquidity Risk, speculative Risk, Demand Risk, Input Risk, Financial Risk, Environmental Risk, Liability and Insurable Risk.

The study also aims to put light on the Leverage that may cause a change in the Stock Returns and Change in Volatility. Data has been collected through various sources e.g. Balance Sheet Analysis of Joint Stock Companies Listed on the Karachi Stock Exchange, State Bank General Index of Share prices, articles from the Pakistan Development Review, and through web search.

Traditionally, the literatures in accounting and finance have tended to characterize organizational effectiveness in terms of the shareholder valuation of the firm's common shares. Research in organization science, on the other hand, increasingly assesses effectiveness in relation to high risk high return emerging market where investor seek high risk premium.

The objective of this study is to determine the relationship between leverage and systematic risk in the corporate sector

of Pakistan during the period from (January 1995 to December 2000). This study examined that the leverage of a firm changes relative to stock and bond prices, the volatility of the firm also changes. According to the leverage effect, a reduction in the equity value would raise the debt to equity ratio, hence raising the riskiness of the firm as manifested in an increase in future volatility.

Symbols

μ	⇒	Mean of the Return
α	⇒	Intercept from the Regression.
δ	⇒	Change in volatility of Return.
β	⇒	Change in Return.
Δ	⇒	Change.
R_{IT}	⇒	Return on Industry in Time period t.

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