

## ABSTRACT

This study identifies variables that influence the capital structure of firms. It reveals the factors that may help explain the capital structure of publicly traded firms in Trinidad. This is significant because it reveals the differences in market imperfections between the international and local environment.

Variables discussed in literature as influencing the capital structure of firms were combined to form a statistical model, which was used to predict the capital structure of firms. These variables included rate of taxation, probability of bankruptcy, industry classification, firm size, firm growth, firm profitability and operating risk.

Panel data was used to test the hypotheses. Data was collected from twenty-seven firms for the period 1995 to 1999. Multiple regression analysis results showed that 43% of the changes in the capital structure of firms could be explained by the independent variables. T-tests showed that four of the seven independent variables were statistically significant and three of the seven proposed hypotheses were supported.

The statistical results suggest the factors that help to explain the capital structure of local firms are similar to those that explain the capital structure of international firms. Thus factors influencing firm's financing choices may be similar.