

# **Dynamic Capital Structure and Factors Influencing the Speed of Adjustment of UK Firms**

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**Abstract:**

This paper estimates firms' speed of adjustment by measuring the difference between simulated debt levels (target) and actual leverage (observed) levels to the difference between real leverage levels and lag levels based on the unit of observation (firm level) data. We test the impact of endogenous and exogenous factors to speed of adjustment. We find that the interaction of types of factors is statistically significant which would invite a rethink on the current understanding of capital structure decisions.

**Keywords:** Capital Structure, Speed of Adjustment, System GMM, UK Firms