CAPITAL STRUCTURE, RISK AND FINANCIAL INNOVATIONS: EVIDENCE FROM THE GREEK CAPITAL MARKET

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This paper attempts a dual empirical investigation. At the first level, the effect of the financial leverage ratios upon the betas of the firms is examined, and also the existence of a long term correlation between the two variables. On the second level,the effect of financial innovations (more specifically the announcement of convertible debt offerings) on the betas of the firms is examined. The empirical results on the first level of the paper display a positive effect of the financial leverage ratios on the firms' betas, while also indicating a common stochastic trend between the two variables. On the second level, the empirical results support the notion that the issuing firms face a lesser market risk during the period of the announcement of convertible debt offerings. The empirical data originates from the Greek capital market during the period 1991-1999.

Essays in honor of the late Professor Ch. Naum, Vol. A', pp. 515-533, University of Piraeus, 2006