Capital Structure Decisions and the Optimal Design of Corporate Market Debt Programs

Lionel Martellini, Vincent Milhau, Andrea Tarelli

PII: S0929-1199(17)30719-8
Reference: CORFIN 1304

To appear in: Journal of Corporate Finance

Received date: 1 September 2016
Revised date: 10 November 2017
Accepted date: 24 November 2017


This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
Capital Structure Decisions and the Optimal Design of Corporate Market Debt Programs

Lionel Martellini\textsuperscript{a}, Vincent Milhau\textsuperscript{a,}\textsuperscript{*,} Andrea Tarelli\textsuperscript{b}

\textsuperscript{a}EDHEC Business School
393-400, Promenade des Anglais, 06202 Nice Cedex 3, France
\textsuperscript{b}Catholic University of Milan
Largo Gemelli, 1, 20123 Milano, Italy

Abstract
This paper provides a joint quantitative analysis of capital structure decisions (debt versus equity) and debt structure decisions (fixed-rate debt versus floating-rate debt or inflation-linked debt) in a continuous-time setting. We show that optimizing the debt structure has an impact on capital structure decisions, and leads to increases in leverage ratios compared to a pure fixed-rate debt program. We also find that for realistic parameter values, jointly optimizing the debt and capital structures generates a significant increase in firm value with respect to a situation where only the capital structure is optimized.

Keywords: capital structure, debt structure, inflation risk, interest rate risk

1. Introduction
While asset allocation decisions are relatively well understood from the theoretical standpoint, with a range of prescriptions available in complex situations involving, among other things, a stochastic opportunity set or the presence of parameter uncertainty, our understanding of liability management decisions is comparatively much more limited. Two separate strands of the corporate finance literature have in fact been primarily concerned with optimal liability structure for a firm: the dynamic capital structure literature, which has abstracted away from debt allocation decisions so as to better focus on optimal capital structure decisions in tractable quantitative settings, and the risk management literature, which has studied the desirability of hedging and the form of optimal hedging in isolation from the capital structure problem.

On the one hand, the early capital structure literature has stated that corporate financing policy and the choice of liability structure is irrelevant in the absence of contracting costs and taxes; this is the fundamental insight from the Modigliani-Miller theorem [43]. Hence, the introduction of frictions provides one natural possible justification for a non-trivial capital structure choice that is based on the trade-off between the tax

---

\textsuperscript{*}Corresponding author
Email address: vincent.milhau@edhec.edu (Vincent Milhau)
The authors would like to thank Noël Amenc, Alaric Audard, Cécile Bloy, Mikhail Chernov, Pierre Collin-Dufresne, François Jarrosson, Pierre Mella-Barral and Virginie Rieger for very useful comments. Any remaining errors are ours.
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات