

CRITICAL ANALYSIS OF LITERATURE ON THE DETERMINANTS OF CAPITAL STRUCTURE

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One of the most debated topics in corporate finance is capital structure, which requires consideration in order to enable financial managers to make effective investment decisions. Capital structure consists mainly of debt and equity of a firm. When choosing a company's capital structure, different factors must be taken into account in order to optimize the profitability and value of a firm. This research intends to critically assess literature on determinants of capital structure of a firm. The sources of finance, however, are clearly affected by some major factors such as taxes, information asymmetry, and agency cost. Interpretations of these factors differ in different theories of capital structure as they are not proposed to be general as some focus on cost and other focus on benefits from different sources of funding. The literature also points out that behavioral biases such as overconfidence, optimism, loss aversion and anchoring lead to the fact that managers of the companies form the capital structure on the basis of their own affinities. In addition, based on literature analysis, each firm has different specific factors such as profitability, firm size, tangibility, liquidity, depreciation, growth opportunity, and business risk related to capital structure; also, a firm's better management understands the dynamics of interest rate, inflation, and economic growth. Most of the literature on the determinants of capital structure neglected to bring the capital market circumstances into the inquiry and achieved a result relying on either quantitative or qualitative methods. Existing literature on determinants of capital structure can be examined from a point of view in different influences of theories, behavior, firm, economic and capital market conditions and also the research to be carried out together with quantitative and qualitative methods will be an introduction of new knowledge to the literature on the determinants of capital structure.

Keywords: *Behaviour, Capital market condition, Capital structure, Economic, Firm*