The Impact of Capital Structure on Liquidity and Investment Growth Opportunity in Tehran Stock Exchange

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ABSTRACT

The objective of this paper is to study the impact of capital structure on liquidity and growth opportunity in firms listed in Tehran Stock Exchange (TSE). To do so, we have chosen 75 firms for the time period of 2006 - 2010. We used the least square regression to test research hypotheses. In this research, capital structure (leverage) is used as the dependent variable and liquidity ratios (the ratio of cash flows to total assets, the ratio of cash flows to net income, the ratio of cash flows to equity) and growth opportunity proxies (the ratio of market value of assets to book value of assets, the ratio of the market to book value of equity, and the earning / price (EP) ratio) were considered to be the independent variables. Regarding the research aims six hypotheses were proposed. The results of hypotheses' test showed that all were approved. This means that financial leverage has a meaningful effect on liquidity and growth opportunity. Also in this research we have used sales' growth and firm size variables as controlling variables. These variables had a reverse relationship with capital structure.
KEYWORDS: Capital Structure, Growth Opportunity, Liquidity

1. INTRODUCTION

Capital structure in a business entity includes cashes supplied through debt and equity. The origin and composition of the two types of capitals will supply financial consistency and the capability to pay the long-term liability of the company. Companies which finance through the common stocks are more attractive for investors and creditors because they do not have any claims prior to the common stocks. However, long-term liability and the outstanding stock can create leverage for the structure of a company and improve the return of owner equity. The novel theories of financial structure were posed in late 1950s and precisely after the publication of the famous paper written by Modigliani & Miller (1958) and the presentation of irrelevance proposition. They presupposed in their theory that every company has a certain set of expected cash flows. When a company identifies a certain ratio of its liabilities and equities to finance its assets, it is trying to make decisions about how to divide cash flows mentioned among different investors. Also it is supposed that since the accessibility amounts of investors and companies to financial markets are the same, investors can supply all financial needs of the company (amount isn't important) and liquidate all unwanted liabilities for which the company has responsibility. Regarding the presuppositions above, Modigliani & Miller (1958) concluded that the liabilities and capital structure of a company do not affect its market value (Alinezhad & Taghizadeh, 2012).

According to pecking order theory which is resulted through the studies carried out by Myers & Majluf (1984), there is not any optimal debt ratio and firms will try to supply financially without paying attention to optimal capital structure and only will consider the predetermined pecking order. In this theory, firms can finance through internal and external cash resources. It should be noted here that the internal cashes are in priority and external cashes will be used only when the internal ones are not enough. In this case debt issuance will be preferred to stock issuance. In other words, in pecking order theory, when the internal cash flows of a company are not enough to invest and pay the cash profit, firms issue debts and stocks never are issued unless the company is forced to issue debts with high interest rates and the financial crisis' cost is high (Sunder & Myers, 1999). Thus, we can describe pecking order theory of a company's finance as: the first choice of the managers is using internal cashes (accumulated profit), then low-risk debt bonds and finally stock issuance (Alinezhad & Taghizadeh, 2012).

Theoretically every company which has done reforms has reduced its leverage. On the other hand, if it recognizes the future growth opportunities in time, the effect of debt will decrease even if it results in stimulants based on less investment. A manager can educe the leverage optimally by recognizing the future growth opportunities and lighten its effect on growth. The leverage includes a warning about the information of the managers about investment opportunities. Capital structure theories believe that the managers of firms with appropriate investment opportunities should choose a lower leverage because if they increase their external liabilities, they can not use their investment opportunities' advantages. Thus, a negative relationship is created between the future growth and leverage because managers in firms with high growth opportunities will choose a lower leverage. Such results can be seen in regressions which control growth opportunities (Noraversh & Yazdani, 2010).

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2. Theoretical background and prior research

The novel theory of capital structure was first presented by Modigliani & Miller (1958). A lot of researchers carried out researches about capital structure in the following years. During the past decades, some patterns were presented to describe the fluctuations of debt ratio in different companies. The static trade-off theory and the pecking order theory were posed in late 1970s (Harris & Raviv).

The first version of static trade-off theory was posed by Bradely & et al (1984). But the taxation structure presupposed in the pattern mentioned does not accord with the present realities. According to static trade-off theory, firms are looking for an optimal capital structure (debt ratio) which maximizes the firm's value. In this theory, firms want to create a balance between the advantages and costs of debt issuances. The advantages of issuing debt can be tax shield and the reduction of the controversies among the benefits of stockholders and managers and the costs of debt issuance can contain the potential costs of bankruptcy and the controversies of the benefits of stockholders and creditors. In an optimal capital structure (debt ratio) the benefits of the last Rial of the debt only covers the costs resulted from it (Fama & French, 2004).

Individuals need financial data for decision making. Accounting information is one of the resources to do so. In theoretical fundamentals of financial reporting, the role of financial information and its usefulness has been stressed in individuals' decision makings. Financial Accounting Standards Board (FASB) and Accounting standards Board in Iran have emphasized on the theoretical framework of financial reporting to supply financial information in a way that the decision makings of the individuals is affected positively. One of the accounting items which should be supplied and presented in financial reporting (balance sheet) is liabilities. Usually liabilities are considered as a factor to predict and more importantly to guide for investment and making decisions. Thus, the investors are opt to realize the cash flow of an institution where they have invested to be able to judge about their stock value. Also they need cash flows and liquidity of the company to be able to estimate their stock values. Firms or individuals with liquidity in a period are able to repay the debts during the due time. On the other hand, the important thing in making decisions related to investment is the recognition of desirable and profitable growth opportunities. Following Myers (1977), growth opportunities are considered in terms of the proportion of firm value accounted for by assets-in-place; the lower the fraction of firm value represented by assets-in place, the greater are the firm's growth opportunities or IOS. Mason and Merton (1985) Point out that firm with growth options are those that have relatively more capacity expansion projects, new product lines, acquisition of other firms and maintenance and replacement of existing assets. Three theories that might explain the association between IOS and corporate finance policy are the tax, signaling and contracting arguments (Gul, 1999). Regarding the fact that growth opportunities are considered as an invisible variable, it is difficult to measure and assess all opportunities (practical and potential) of a company simultaneously. But to remove this problem, the researchers have used different criteria during different periods. For example, (Smith & Watts, 1992; Kole, 1991; Chung and Charoenwong, 1991; Collins and Kothari, 1989; Lewellen, Loderer, and Martin 1987; Gaver and Gaver, 1993; Bikki Jaggi & Ferdinand 1999; Kallapour & Trombley, 1999) have used three ratios to measure this variable as: market value of asset divided by book value, market value of stock divided by book value, and earnings per share to each share's price. Smith and Watts (1992) and Kole (1991) measure growth opportunities as the ratio of the book value of assets to total firm value *(A/V)*. Smith and Watts argue that the higher the *A/V* ratio, the higher the ratio of assets in place to firm value and the lower the ratio of investment opportunities to firm value. They point out, however, that because assets are measured at historical cost less depreciation, the *A/V* ratio is likely to involve significant measurement error for firms with long-lived assets. Also, because firm value is measured as the market value of equity plus the book value of debt, the ratio involves measurement error for highly levered firms.

A related measure of investment opportunities is the ratio of the market value of equity to the book value of equity, used by Chung and Charoenwong (1991), Collins and Kothari (1989), and Lewellen, Loderer, and Martin (1987). Collins and Kothari argue that the difference between the market value and the book value of equity roughly represents the value of investment opportunities facing the firm. The market-to-book equity ratio depends on the extent to which the firm's return on its existing assets and expected future investments exceeds its required rate of return on equity. Similarly, Lewellen, Loderer, and Martin (1987) contend that the volume of growth opportunities determines the future earnings rate on equity that the firm is expected to produce and the rate at which both earnings and cash flows are expected to grow over time. These are key determinants of the value per dollar of existing invested equity capital, that is, the market-to-book equity ratio (Smith and Warner, 1992).

Another measure of the investment opportunity set, which is similar in spirit to the market-to-book ratios, is the earnings/price (EP) ratio used by Chung and Charoenwong (1991) Kester (1984), and Smith and Watts (1992).

Chung and Charoenwong model equity value as the sum of the capitalized value of earnings generated from assets already in place, plus the net present value of the firm's future investment options. They show that the larger the EP ratio, the larger the proportion of equity value attributable to earnings generated from assets in place, relative to growth opportunities. Limiting assumptions of this analysis, however, are that current earnings are an adequate proxy for cash flows received from assets in place, and that these cash flows are received in

perpetuity. In addition, the characterization is only meaningful for firms with nonnegative earnings (Smith and Warner, 1992).

The strong negative relation between leverage and growth at the firm and segment levels raises the question of whether leverage uniformly lowers growth regardless of whether a firm has good investment opportunities. Much of finance theory implies that leverage should have less of an effect for firms whose valuable investment opportunities are recognized by the capital markets, i.e., firms with high Tobin's cl. In contrast, leverage should have a negative effect on growth for firms doing poorly because of a lack of recognized investment opportunities, poor managerial performance, or other masons.

Based on Jensen's (1986) theory two important factors of investment opportunities and size play an important roles in financing and the determination of debt policy and also the maintenance of surplus cash. According to this theory, a company with low investment opportunities is expected to have high free cash flows because when investment opportunities increase, most surplus cash is used to invest in present opportunities to increase the wealth of stockholders and investors and an increase in investments' amount through surplus cash will result in the decrease of these cashes. Firm size is considered the second important factor. Big companies benefit from higher fame and value compared to small companies and it is expected that the financial institutions and investors should tend more to confer the credit and invest in big companies compared to the rivals. This (the tendency of investors and creditors) will affect the amount of surplus cash and liability level.

Bikki Jaggi & Ferdinand (1999) carried out a research about the analysis of the effects of investment opportunities, free cash flows and firm size on liability policy. The results showed that in firms with low investment opportunities, there is a relationship between free cash flow and their liability amount and also there is a relationship between the amount of liability and free cash flow in firms with low investment opportunities based on firm size.

Ahn & et al (2006) studied the effect of financial leverage on investing in firms accepted in London Stock Exchange during the years between 1977 and 1982. The summary of their results showed that financial leverage has a negative effect on investment. Also firms with higher financial leverages impose a limitation on investment and the more liabilities of firms will result in less investment in its capital assets.

Sung (2009) studied the relationship between financial leverage and investment opportunities in industrial companies in China experimentally. He used four ratios to measure the financial leverage as: debt to book value of capital ratio (book value of common stocks plus book value of outstanding stocks), debt to market value of capital ratio (market value of common stocks plus book value of outstanding stocks), long-term debt to book value of capital ratio (book value of common stocks plus book value of outstanding stocks), and long-term debt to market value of capital ratio (market value of common stocks plus book value of outstanding stocks). To measure growth opportunities, we have used market to book value ratio of common stocks. Also companies were categorized regarding the type of industries. He stated that Chinese companies having more growth opportunities are expected to tend less for asking for the loans. In this research, the companies were categorized into two groups of big and small ones and separate tests were administered for them because it is believed that debt ratio has a positive relationship with firm size. Also big companies use more debts, while small companies use their own cashes for investments.

Abor & et al (2010) studied the effect of investment opportunities and the resources of financial supply on the policies of dividends. This research was carried out regarding 34 firms accepted in Ghanaian Stock Exchange during the years between 1990 and 2006. To estimate the multi-variable linear model, panel data with fixed effects' method has been utilized. The findings of their research showed that the investment opportunities have a negative effect on dividends' policy. Also the resources of financial supply of a company have a little effect on a firm's dividends' policy and most probably profitable companies divide more profits among their stockholders.

Sinayee & et al (2012) studied the effect of growth opportunities on the relationship between capital structure, dividends and ownership structure of firm value. Thus, 110 companies were selected to be investigated during the time period between 2004 and 2008. The research results showed that there is a meaningful relationship between capital structure (leverage) and dividends with firm value. If there are some growth opportunities, this relationship is meaningful and negative. But without growth opportunities, the relationship is meaningful and positive. Also the results showed that there is a non-linear and meaningful relationship between ownership structure and firm value and growth opportunities have a meaningful effect on this relationship.

3. METHODOLOGY

The present research is applied regarding its goal. The aim of applied researches is to develop the applied knowledge in a certain field. Also regarding data collection, this research is descriptive and since it ends up with more knowledge about the present situation and helping in decision masking process, it is correlation. In this research the financial leverage is thought to be the dependent variable and liquidity and growth opportunities are considered as the independent variables. There are a lot of criteria for liquidity. According to the researches done by Chokakiti (2005) and Aghaee & Shakeri (2010), we have used the proxies such as cash flows to assets,

cash flows to net income and cash flows to equity in the year t-1. Chokakiti (2005) remarked that the previous year's cash ratios can be used in the prediction of the future cash flows. Also we have used three proxies of market value divided book value of assets (MBVA), market value of the stock divided by book value of the stock (MBVE) and earnings per share divided into each share's price (EPS/P) (Smith and Warner, 1979; Kallapour & Trombley, 1999; Gaver, 1993; Chung and Charoenwong, 199;) for investment growth opportunities' variable based on researches done by Bikki Jaggi & Ferdinand 1999; Gaver, 1993). The time period for this research is between 2006 and 2010. Due to the broadness of the statistical population and certain difficulties resulted from it and also existence of some disharmonies among the members of the society to collect the data needed for our research, the following conditions were considered in choosing our statistical sample:

a) Firms should at least have been listed in Tehran Stock Exchange (TSE) in the start of the year 2006 and be present in it to 2010.

b) Due to the nature and different categorization of the items in financial statements of investment companies and financial intermediary compared to manufacturing companies, insurance investment companies, banks and financing institutions were not studied in this research.

c) Due to the necessity to test the hypotheses in each company, the data needed should be handed.

d) To observe comparability, the fiscal year should be accessible.

e) The companies should not have transaction halt for more than three months during the research period.

Regarding the conditions above and the limitations, 75 companies were chosen from among firms listed in Tehran Stock exchange. The financial statements of firms above have been extracted from Tehran Stock Exchange and analyzed. Also the analysis of the research and testing the data has been done by EXCELL and SPSS software.

3.1 Research Hypothesis

To achieve the research goals, the following hypotheses are suggested:

1. Capital structure impacts the ratio of cash flows to assets.
2. Capital structure impacts the ratio of cash flows to net earnings.
3. Capital structure impacts the ratio of cash flows to equity.
4. Capital structure impacts the ratio of the market to book value of equity.
5. Capital structure impacts the ratio of market value of assets to book value of assets
6. Capital structure impacts the earning / price (EP) ratio

3.2. Research variables
3.2.1. Dependent variable
Capital structure (LEV): The leverage (LEV) is total debts divided by total capital
3.2.2. Independent variables

Liquidity ratios: In this study the liquidity ratios include: cash flows to assets' ratio, cash flows to net income and the ratio of cash flows to equity were considered as independent variables which are calculated as follows:

Cash flows to assets' ratio (CFO/A): it is calculated by using cash flows' division.

Cash flows to net profit (CFO/NI): it is done by dividing cash flows to net profit.

Cash flows to equity (CFO/E): it is done by dividing cash flows to equity.

Investment growth opportunities: IOS is measured in terms of three widely used proxies for growth opportunities. Goyal et al. 1998, Bikki Jaggi & Ferdinand,1999). The first variable is the ratio of market value of assets to book value of assets (French and Poterba, 1991). Which is defined as follows:

MKTBKAS= [Book assets - Total common equity + Shares outstanding × Share closing price] / Book assets.

This ratio is selected for two reasons. First, as argued by (Smith and Warner, 1979) and (Gaver and Gaver, 1993), this ratio is inversely related to the proportion of firm value accounted for by assets in place and hence directly related to the proportion of firm value accounted for by its investments opportunities. Second, Skinner (1993), used variations of this ratio of the value of gross property, plant and equipment to firm value, and Tobin's q, defined as the ratio of market value of the firm to the replacement cost of the assets.

The second measure is the ratio of the market to book value of equity (Chung and Charoenwong, 1999), which is defined as follows:

MKTBKEQ= [Shares outstanding × Share closing price] / Total book value of common equity.

Two reasons prompt the selection of this measure. First, the difference between the market and book value of equity approximates the value of investment opportunities facing the firm (Collins and Kothari, 1989). Second, future earnings that the firm is expected to produce and the expected growth rate of both earnings and cash flow are determined by the amount of growth opportunities (Lewellen et al., 1987).

The third empirical proxy for IOS selected is the earning / price (EP) ratio (Beaver and Morse, 1978) which is defined as follows:

EP = Primary EPS before extraordinary item / Share closing price.

(Chung and Charoenwong 1991) demonstrate that the EP ratio is inversely related to growth opportunities; the larger the EP ratio, the larger the proportion of equity value attributable to earnings from assets-in-place. Chung and Charoenwong(1991, p. 26). also demonstrate that the EP ratio is more robust than the price-earnings ratio to possible distortion when a firm has earnings that is close to zero or negative.

3.2.3. Controlling variables

Firm size (size): it is the natural logarithm of total assets.
Sale growth: it is the difference between sales in the current year and the sales in the previous year divided by the previous year's sales.

4. Research findings

In table 1, the descriptive statistics including mean, standard deviation, Skewness and Kurtosis have been presented. The results of table 1 showed that through independent and dependent variables, the ratio of market value to book value which shows growth opportunities has had the highest average (1.529) and the ratio of cash flows to assets has had the least average (0.100). Additionally, the deviation of the market value to book value of assets (3.665) shows more changeability of this variable compared to other dependent variables during the research period.

Table 1. Descriptive statistics

Variables	Mean	Std. Deviation	Skewness	Kurtosis
LEV	0.5499	0.2362	.386	1.145
CFO/A	0.100	0.1220	.941	1.329
CFO/NI	1.028	1.877	4.438	26.925
CFO/E	0.4686	1.203	4.377	26.479
MBVE	1.529	1.316	3.040	15.877
MBVA	1.362	3.665	-10.407	151.899
EPS/P	.3955	.4637	1.606	4.403
SG	0.2466	.6320	2.963	12.917
SIZE	12.984	.7519	-0.303	1.159

According to the first hypothesis in this research capital structure affects the ratio of cash flows to assets significantly. As it can be observed in table 2, the P-Value of the variable of the ratio of cash flows to assets is less than 0.05. Thus, capital structure affects the ratio of cash flows to assets negatively. This means that the higher amount of long-term liabilities in a company will result in the lower amount of the ratio of cash flows to assets. The adjusted coefficient determinant of (R^2) is also equal to %10.3 and this means that the independent variable can explain %10.3 of the changes of the dependent variable. The variables of firm's growth and amounts of assets are observed as control variables in this table. The effectiveness coefficient of the variables of size and firm's sales growth show that there is a reverse relationship between the size and liabilities of a firm. Myers & Majluf (1984), the founders of pecking order theory, believe that information asymmetry is less in big companies. Thus, they tend to issue stocks more than increasing the debt level. Most studies carried out previously show a positive relationship between firm size and debt ratio (Rajan & Zingales 1995, Barkely & Smith, Shell 1994, Wald 1999). The results of our research are similar to those of Nasirzadeh & et al (2011). They showed that there is a negative relationship between capital structure and firms' sizes.

Table 2. Impact of capital structure on cash flow to total assets ratio

Variables	Coefficients	Std. Error	t-Statistic	Sig
Constant	1.327	0.246	5.391	0.000
CFO/A	-0.370	0.119	-3.114	0.002
SG	-0.060	0.022	-2.673	0.008
SIZE	-0.060	0.021	-2.925	0.004
Adjusted R Square	.103			
Durbin-Watson	1.506			
F-value	10.550			
Prob(statistic)	0.000			

The second hypothesis states that capital structure has a significant impact on the ratio of cash flows to net income. The results of testing the second hypothesis are shown in table 3. As it can be observed the P-Value of the variable CFO/NI is less than 0.05. Thus, there is a significant positive impact in %5 meaningfulness level of the financial leverage on the ratio of cash flows to net income. This means that the higher amount of the liabilities of a company, there would be a higher amount of the ratio of cash flows to net income. The amount of coefficient (R^2) is also equal to %10.7 and this means that the independent variable can explain %10.7 of the changes of the dependent variable. Here also there is a reverse effect of the controlling variables of sales' growth and firm size.

Table 3. Impact of capital structure on cash flow to net income ratio

Variables	Coefficients	Std. Error	t-Statistic	Sig
Constant	1.399	0.243	5.757	0.000
CFO/NI	0.025	0.008	3.297	0.001
SG	-0.057	0.023	-2.513	0.013
SIZE	-0.072	0.020	-3.552	0.000
Adjusted R Square	.107			
Durbin-Watson	1.541			
F-value	10.972			
Prob(statistic)	0.000			

The third hypothesis states that capital structure has a significant impact on the ratio of cash flows to equity. The results of testing the third hypothesis are shown in table 5. There is a significant positive impact in %0.05 meaningfulness level of the financial leverage on the ratio of cash flows to equity. This means that the higher amount of the liabilities of a company, there would be a higher amount of the ratio of cash flows to equity. The amount of coefficient (R^2) is also equal to %9.3 and this means that the independent variable can explain %9.3 of the changes of the dependent variable. According to the static trade-off theory, those companies which have more liquidity will use more liabilities. In this theory, debt is an instrument to control management in order to avoid using free cashes. Thus, higher amounts of liabilities can limit managers in firms which have higher profitability and liquidity (Hung & Sung, 2006).

Table 4. Impact of capital structure on cash flow to equity ratio

Variables	Coefficients	Std. Error	t-Statistic	Sig
Constant	1.567	.249	6.298	0.000
CFO/E	0.032	0.012	2.629	0.009
SG	-0.063	0.023	-2.787	0.006
SIZE	-0.085	0.021	-4.071	0.000
Adjusted R Square	0.093			
Durbin-Watson	1.558			
F-value	9.540			
Prob(statistic)	0.000			

The fourth hypothesis states that capital structure has a significant impact on the ratio the market value to book value of equity. The results of testing this hypothesis are shown in table 7. There is a significant positive impact in %0.05 meaningfulness level of the financial leverage on the ratio the market value to book value of equity. This means that the higher amount of the liabilities of a company, there would be a higher amount of the ratio of stocks' market value to book value. The amount of coefficient (R^2) is also equal to %9.25 and this means that the independent variable can explain %9.25 of the changes of the dependent variable. Chung Hong & et al (2004) stated that in pecking order theory those firms which have investment opportunities will use the liability as the first resource for external financing. Thus, based on this theory there would be a positive relationship between growth opportunities and debt ratio.

Table 5. Impact of capital structure on the market value to book value of equity

Variables	Coefficients	Std. Error	t-Statistic	Sig
Constant	1.395	0.245	5.682	0.000
MBVE	0.028	0.011	2.563	0.011
SG	-0.065	0.023	-2.876	0.004
SIZE	-0.073	0.020	-3.565	0.000
Adjusted R Square	0.092			
Durbin-Watson	1.468			
F-value	9.416			
Prob(statistic)	0.000			

The fifth hypothesis states that capital structure has a meaningful effect on the ratio of assets' market value to book value. The results of testing this hypothesis are shown in table 8. There is a meaningful negative relationship in %0.05 meaningfulness level of the financial leverage on the ratio of assets' market value to book value. This means that the higher amount of the liabilities of a company, there would be a lower amount of the ratio of assets' market value to book value. The amount of coefficient (R^2) is also equal to %8.4 and this means that the independent variable can explain %8.4 of the changes of the dependent variable. According to the predictions done by static trade-off theory, those companies which have higher growth opportunities, need an external financing resource. These companies do not issue liabilities because it transmits the wealth of stockholders to creditors. On the contrary firms which do not have any growth opportunities should start issuing liabilities according to agency theory to limit agency costs related to management. Thus, static trade-off theory predicts that there is a negative relationship between using debts and growth opportunities of a company (Chen, 2004). Additionally, growth opportunities is considered as a type of asset which increases firms' value but it can

not be secured and thus there is a negative relationship between growth opportunities and debt ratio (Titman & et al, 1988). The results of our research are similar to those findings of Ferdinand & Barch (1998), Howton & et al (1998), Widhan Guyan & et al (2000), and Sinayee & et al (2012).

Table 6. Impact capital structure on the market value to book value of assets

Variables	Coefficients	Std. Error	t-Statistic	Sig
Constant	1.482	0.246	6.015	0.000
MBVA	-0.011	0.004	-2.759	0.006
SG	-0.064	0.023	-2.857	0.005
SIZE	-0.076	0.020	-3.712	0.000
Adjusted R Square	0.084			
Durbin-Watson	1.504			
F-value	9.794			
Prob(statistic)	0.000			

The sixth hypothesis states that capital structure has a meaningful effect on the ratio of earnings per share to each share's price. The results of testing this hypothesis are shown in table 9. There is a meaningful negative relationship in %0.05 meaningfulness level of the financial leverage on the ratio of assets' market value to book value. This means that the higher amount of the long-term liabilities of a company, there would be a lower amount of the ratio of earnings per share to each share's price. The amount of coefficient (R^2) is also equal to %8.6 and this means that the independent variable can explain %8.6 of the changes of the dependent variable.

Table 6. Impact of capital structure on the price per share to Earnings per share

Variables	Coefficients	Std. Error	t-Statistic	Sig
Constant	1.368	0.248	5.521	0.000
EPS/P	-0.070	0.031	-2.232	0.027
SG	-0.061	0.023	-2.674	0.008
SIZE	-0.065	0.021	-3.109	0.002
Adjusted R Square	0.086			
Durbin-Watson	1.510			
F-value	8.842			
Prob(statistic)	0.000			

Conclusion

The aim of the present research was to study the impact of capital structure on liquidity and investment growth opportunities in firms listed in Tehran Stock Exchange. In this research, capital structure (leverage) was considered to be the dependent variable and liquidity ratios (cash flows to assets, cash flows to net income, and cash flows to equity) and the proxies of investment growth opportunities (the ratio of market value of assets to book value of assets, the ratio of the market to book value of equity, and the earning / price (EP) ratio) were considered to be the independent variables. Testing the first hypothesis showed that there is a negative significant effect of the financial leverage over the ratio of cash flows to assets. This means that the higher liabilities of a company will result in the lower amount of this ratio. The existence of a negative relationship between liquidity and debt ratio accords with the results of researches carried out by Titman & Wessels (1998), Rajan & Zingalse (1995), Zoua & Xiao (2006), Huwang & Sung (2006), and Mazor (2007). Testing the second hypothesis about the effect of cash flows on net earnings showed that there is a positively significant effect. This means that the higher amount of liabilities of a company will result in the increase of this ratio. Also the results of testing the third hypothesis showed a meaningful effect of the financial leverage on the ratio of cash flows to equity. Testing hypotheses 4, 5, and 6 was related to the effects of capital structure on the proxies of investment growth opportunities. The results of these three hypotheses showed that the financial leverage has a significant effect on investment growth opportunities.

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