

## Survey of Relationship between the Capital Structure and Stocks Liquidity at the Accepted Companies in Tehran Stock Exchange Organization

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**Abstract:** Taking a look at the asymmetry of the current data at the market, the present research tries to attain some conclusions regarding the stock share holders and investors' responses towards the financial leverage and issuing of audited financial reports within seven transactional days before event (issuing financial reports) Compared to seven transactional days after event. With the application of the nonparametric tests in two cross sectional and pooled method amongst the companies which are member of Tehran Stock Exchange organization from 13 industries, the reactions toward the prices was measured by making use of four liquidity Proxies within the period of 2002-2007. The results showed a weak relation between the leverage and the liquidity ranking, and other variables including the proportional spread of stock price, Stock Price Depth and number of stocks circulation times (Turnover Rate of Stock), did not demonstrate a significant relation. The results show that the capital structure is a related and dependent factor (even if the weak one) for decisions made by the investors and the shareholders. In fact, they consider the risk of cash flows resulted from debts in their decision-making process parameters. [Ali Ahmadzadeh and Ameneh Malekinejad. Survey of Relationship between the Capital Structure and Stocks Liquidity at the Accepted Companies in Tehran Stock Exchange Organization. Journal of American Science 2011;7(6):1109-1118]. (ISSN: 1545-1003). <http://www.americanscience.org>.

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### 1. Introduction

The capital structure is the mixture of long-term fund resources being used by the companies by means of which the financial supply of assets can be paid. The mixture of debt and the capital affects the value of the companies through the expected incomes resulting from capitals and the rate of capital expense. Changing this mixture, results in the modification of capital cost of the company. The main goal of capital structure is providing an appropriate combination of the long-term fund resources in order to minimize the capital cost of the company, thereby, maximizing its marketing value. This mixture is called "the optimized structure". The most important concepts for investment decision makings involve management and shareholders attitude, risk and return. The term "return rate" is applied in order to explain increasing or decreasing rate of investment during period of maintaining assets. The expected "return rate" informs the investor of the average reward which he/she anticipates is achieved within a certain period. The difference between the anticipation and reality which is probably resulting from unanticipated changes and evolutions is called the uncertainty of the stock return. The investor is always in search of risk reduction and increasing certainty of investment

profitability. Several factors lead to the deviation of the return rate and as a result, change of the stock price at the market including commercial risk, interest rate risk, risk of inflation, financial risk, risk of liquidity and risk of exchange rate. Illiquidity as a risk causes the enhancement of the shareholders expected return and their response against its fluctuations. The liquidity points out the acceleration and expense of trading an asset or stock in an active market. The more precise the recognition of buyer and seller and their evaluation from an asset, the rate of exchange will be increased and its expense will be decreased, and as a result, the degree of liquidity is increased. In fact, the more the seller is able to sell the asset quicker and with lower cost, the more the liquidity will be (Gelosten, 1985). In investment market, risk and the return are positively correlated. The risk of liquidity resulting from asymmetry of the information has a highly important effect on the return rate demanded by the shareholder and is influenced by many factors including financial (validity) leverage. Lismer, Kouner and Sanbeth (2008) in a research done in the United States concluded that changes of leverage solely justify 20% of the liquidity periodical changes (E. Lismond, 2003). Barath, Paskarliu and woo (2008) proved that those companies who have replaced debt with the

capital, economically and statistically faced with considerable amount of liquidity cost changes which originates from increase of information asymmetry (Mac Groat, 2008). Amihud and Mendleson (1989) maintained that the increase in capital through debt can lead toward increasing asymmetry of information about the capital and by increasing the liquidity cost it will result in the enhancement of the capital.

## 2. Literature Review

The key parameter regarding efficiency of the financial markets structure is the expense of transactions. Most markets suggest different prices for the sellers and buyers, therefore the performance efficiency of the market can be measured by means of the price spread of the purchase request suggested by sellers. In case the suggested and requested prices are more close to the quoted price, this indicates the effectiveness of the market in appropriate pricing of that asset or stock (Sibilkov, 2007). The quality of disclosure is discussed as one of the most influential factors on the liquidity of an asset in the market which due to having some effects on the reduction of informational asymmetry and reduction of risk of variant selecting which can result in reducing capital expense of the companies. Amihud and Mendleson stated that since the liquidity increases the value of a company, the companies are more motivated to opt for the liquidity enhancement policies for securities (A. Lambert, 2006). In some cases, the problem is similar to the thing that Akarloff (1970) firstly introduced. He maintained that the informational asymmetry may result in pricing below or above the shares value of the companies. This issue effects the investment decisions made by investors and financial supply of the management. The management requires supply of funds in order to accept or reject the current positive net value projects, under such a circumstance, the decision to issuance stocks is dependent on the market status and asymmetry of the current information. In a manner that the shareholders are not able to have a prompt vision towards the company's situation, they may consider such issuance of stocks as a bad omen and a sign of financial weakness of the company and lower the price of their shares. The asymmetry issue is a problem which affects most often during the issuing of new shares which are used for financial supply of the company's new investments and lead to lowering the price of stocks. If the management goal is to maximize the return for all shareholders, the result will be the attainment of more cash amounts by the new investors in comparison with the previous ones. This may result in non acceptance of the project in the related field, even if it has a positive net value. This fact according which the liquidity via company

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decision makings can increase the value of companies indicated that the increase of liquidity can also decrease the cost of capital (Skinner, 1991). In order to have better understanding of the effect of liquidity on the capital structure of the company, one can look at the capital's cost of the company (taking the literature of the market internal structure into account which indicated the effect of illiquidity over the profit expected by the shareholder). The theoretical literature of the asset pricing states that the uninformed sellers who transact against those informed buyers demand more return rate for the relatively non-liquidated securities (Frider, 2006). Amihud and Mendleson (1986) stated that the higher cost related to transaction of stocks with low liquidity has led to higher claimed return rate and the mere liquidity demand generates higher capital cost. They claim that higher asset maintenance period allows the investors to gain higher expected return/gain by keeping a wide range of assets and as a result of effect of net cost of transaction. The studies all express that investors having assets with more liquidity should pay more amount and they request to be compensated for bearing amounts related to illiquidity. The validity of company can also be increased by reduction of the costs of inflation. Gloston and Milgram (1985), who dealt with the study of relationship between the risk and the price difference for the suggested trade by both seller and purchaser demonstrated that the accounting-specific ratios (including percent of paid profit, size of asset and growth of asset) as the risk parameters have a negative relation with price difference suggested for sale transaction of shares. They proved that the expenses of variant selection results from uncertainty about the future liquidity value of that asset. Their research was based on this concept that the difference of price recommended for sale is merely an informational phenomenon. The quality of information exposure and publicity at the market and the manner of data analysis by the users are to different and important aspects in the market that highly influences the liquidity of shares. Kupland and Galie (1983) decided to define a model for the informational asymmetry. In line with this, they demonstrated that the asymmetry of information in the market leads to increase of the price spread. W. Butler, Groleun and Weston (2002) proved that the liquidity of the capital market is an important determining factor of enlargement cost of capital. Those researchers found in their study that after monitoring the other factors, the investment banks bear lower costs for companies having higher liquidity rates. In fact, the companies with more cashable shares have lower capital cost. W. Anderson (2002) while mentioning the relationship between

total leverage and the company's liquidity rendered a model which anticipated that long-term usage of high debt amount will result in high level maintenance of assets having high liquidities. They found some evidence regarding the existence of a positive relation between leverage and maintenance of liquidity assets, and based upon such findings, they introduced a correlated loop for high leverage, high liquidity and slower growth. Mortal and L. Lipson concluded that companies having stocks with higher liquidity rates are more inclined to apply lower financial leverage and act for their financial provisions through the stocks. Frieder and Martel (2006) Assuming that the debt obliges managers to make better investment decisions found that, while the leverage increases, the scope of suggested price of the sale of stocks decreases. Besides, when the liquidity decreases, the leverage increases. In fact, while the expense for financial supply increases through shares the managers usually seek for using debts. Their results showed that one percent of increase in the spread will lead toward 3% of leverage enhancement. Buhler and Tib (2006) concluded that liquidity risk has a determining impact on the value of the market of company and an optimized leverage. The debt validity scope at the basic market also depends on the degree of liquidity risk. Ratio of debt against high capital in their model will result in lower validity scope. Adrian and Song shine (2008) found a strong positive relation between changing leverage and changing the size of balance sheet (change of asset). They also found that the financial intermediaries are able to moderate their balance sheets in such a way that they will have high financial leverage during high liquidity period and will have low financial leverage during the recession period.

### 3. Questions and Research Hypotheses

This research evaluates the proportional spread of stock price, Stock Price Depth and number of times of stock circulation (Turnover Rate of Stock) during the issuing of audited financial reports (the balance sheet) by the application of the suggested prices for sale of stocks in order to assess the followings:

Is there any relationship between the capital structure and liquidity of stocks of companies being accepted at the exchange market?

In order to answer the above question and taking the existing theoretical basics of it into account, one group of main hypotheses and one group of sub-hypotheses have been formulated as the following:

#### 3.1. Main Hypotheses

1. There is a relation between ratio of the long-term debt toward long term assets and average of spread of stock price.

2. There is a relation between the ratio of the long-term debt toward long term assets and average of Stock Price Depth.
3. There is a relation between the ratio of long-term debt to long term assets and the average of Turnover Rate of Stock.
4. There is a relation between the ratio of long-term debt to long term assets and the rank of the stock liquidity.

#### 3.2. Sub-Hypotheses

1. There is a difference between the average of difference spread of stock price(C Spread) of the leveraged companies and the non-leveraged ones.
2. There is a difference between the average of difference of stock price depths(C Depth) in leverage companies and the one in the non-leveraged ones.
3. There is a difference between the average of difference of Turnover Rate of Stock (C Turnover Rate) of leveraged companies and the non-leveraged ones.
4. There is difference between the average of stock liquidity rank of leveraged companies and the non-leveraged companies.

#### 4. The Methodology of Research

The current research is of applied type and since it is based on the generalization of information coming from a small portion of society named as sample and also because the variables are studied without any alterations, it is also analytical. The duration of the current research was selected by taking the approximate duration of more activities of Tehran Stock Exchange market and ease of access of exchange data into consideration, and a period of 6 years from the year 2002 till 2007 was selected for the financial reports of the companies.

#### 5. Statistical Sample Selection Terms and Conditions

By considering the independent and dependent research variables which includes capital structure and stocks liquidity (which requires the application of exchange of companies' information) the following limitations were defined for selecting sample containing most active companies during the states period:

1. The companies which have been a member of Tehran Stock Exchange during 2002 and their membership have been continued till the year 2007.
2. All companies that their financial year ends in 12.29.
3. All financial moderating and investing companies were omitted from the sample list.

4. All companies who have the data required by research (enough financial Reports) during the above time duration.
5. Companies that during the above 6 years period have less than 6 months of Inactivity (non conduct of stock trades registered at the Trade Panel).
6. The companies which have at least 5 registered trades within each of one month periods before and after the date of publicizing audited financial reports.

In general and after imposing the above restrictions and conditions, there remained 57 companies out of 13 industries all of which were evaluated and tested as the statistical sample. The theoretical basics of the research has been collected from various Persian and Foreign articles and translated books and the data related to the research variables includes data gained by the financial reports and dates of issuance via Tadbir Pardaz and Pars Portfolio software, and also the data regarding price and volume of transactions has been gathered from the Exchange Information Software by paying attention to bulk transactions omission requirement and also ease of having access to that information. After the collecting procedure was finished, the data has been examined with two cross sectional and whole annual methods and after assessing variables, the SPSS software was applied in order to make some statistical evaluations. After the test for determining normality of data, the type of the required test for assessing each hypothesis was determined. In such a manner that Pearson correlation test has been applied for main hypothetic test and also for testing secondary theories (difference of mean between two independent groups of the leveraged and non-leveraged companies) the Kroschall-valis test was used. In case of existence of relation between variables, the Regression Equation has been applied. In order to perform tests, firstly the leverage of companies has been calculated and the mean of leverages of each year has been considered separately. In the next phase, companies having leverages more than or equal to the mean were considered as the leveraged companies and the companies with leverage lower than the mean were considered as non leveraged companies.

## 6. Measuring Research Variables

### 6.1. Independent Variable

#### 6.1.1. Capital Structure

It points to the left side of the balance sheet and by means of mixture of the long-term funds resources the payments for the financial supply of the assets are arranged.

a) Ratio of the long-term debts to long term assets:

$$L_{it} = (LD/LA) \times 100 \quad (1)$$

In which:

L = Leverage

LD = Long-term debts

LA = Long term assets

i= i company

t= year of t

### 6.2. Dependent Variable

The liquidity points to traded asset with lower cost and higher speed. In this research, liquidity means liquidity of the “stocks” of a company and for measuring it, following four parameters have been defined:

a) Proportional spread of stock price

$$SPREAD_i = \frac{AP - BP}{(AP + BP)/2} \times 100 \quad (2)$$

b) Stock Price Depth

$$DEPTH = \frac{TAP}{TBP} \times 100 \quad (3)$$

c) Number of frequency of stocks circulation

$$TURN\ OVER = \frac{NST}{NSO} \times 100 \quad (4)$$

d) Liquidity ranks or score (through symmetrical mean of the six parameters):

$$M_j = N / \left( \frac{1}{I} \right) \quad i = 1.2, \dots, N = 1.2, \dots, 6 \quad (5)$$

In which:

SPREAD= Total ration of relative price gap for company i in the time period t

AP (ask Price) = Average of price requested by purchaser during t

BP (Bid Price) = Average of the seller' suggested price during t

TAP = Total value of stocks requested by the buyer

TBP= Total value of stocks suggested by the seller

NST = Number of Stocks Traded

NSO= Number of Stocks Outstanding

M<sub>j</sub>= j M investment company

N= Number of sextet indicators

I = Indicator of I M from the series (Number of traded stocks, Value of traded stocks, Number of trade days, Number of times of accomplished trade, average of the number of distributed stock and average of the existing value of company stocks)

T= time duration under study

I = Sample under study

Since the goal of evaluation of stockholders and investors' reactions in the short run against the issuance of financial reports and companies' capital structure, therefore the average of 7 days before and 7 days after issuance of financial reports were calculated and similar to Kanagartenam, J.louboo and J.Valen method, the average data before the event (issuance of the audited financial reports) was

calculated as the proxy for each of the spread, depth and Turnover Rate of Stock variables.

The following indexes are defined during this phase:

$$C \text{ SPREAD} = \text{SPREAD}_{t+1} - \text{SPREAD}_{t-1}$$

$$C \text{ DEPTH} = \text{DEPTH}_{t+1} - \text{DEPTH}_{t-1}$$

$$C \text{ TURNOVER} = \text{TURNOVER}_{t+1} - \text{TURNOVER}_{t-1}$$

C SPREAD = the difference of proportional price spread

C Depth = the difference of stocks depth

C TURNOVER = the difference of number of times of stocks circulation

$\text{SPREAD}_{t-1}$  and  $\text{SPREAD}_{t+1}$  = the average percent of the proportional spread of stock price in period before and after the event (Issuance of audited financial reports)

$\text{DEPTH}_{t-1}$  and  $\text{DEPTH}_{t+1}$  = the average stocks depth in the period before and after the event (Issuance of audited financial reports)

$\text{TURNOVER}_{t-1}$  and  $\text{TURNOVER}_{t+1}$  = the average index of stock circulation in the period before and after the event (Issuance of audited financial reports)

(The liquidity rank has been considered as total and as annual total average point and the test and its analyses are done annually and distinct from way of calculating other 2 parameters where the periods before and after the event have been considered).

### 6.3. Controller Variables

In this research, the following variables have been used as a controlling variable for removing their effects on the dependent variable:

1. Size of the company: Equal to the natural logarithm of the company's asset book value.

2. Stock return: Equal to annual average of the price difference at the beginning and end of trading period of the stocks plus Cash Dividends by price of the start of the period.
3. Cash Dividends: equal to the amount of distributed liquidated profit among the shareholders.
4. Return of the assets: The parameter is the profitability of the company which has been calculated as percentage of ratio of the net income to the total assets book value.

## 7. Test Hypotheses

### 7.1. Main Hypotheses

This group of hypothesis deals with the study of existence of relation between the capital structure and the liquidity of shares. In order to test the above theories and studying the existence of a significant relation and determining type and degree of the relation which exist between capital structure and liquidation, the Pearson's correlation test and correlation analysis has been used. Comparing significance level with the test level (0.05) in cross sectional method is a good indicator of non existence of significant relation between leverage and variables for liquidity per each year. In other words, the difference of spread, depth and rank of liquidity showed the correlation coefficients of respectively 0.369, 0.33 and 0.336 and significance level of 0.005, 0.012 and 0.011 in the year 2002 and in the year 2004, the sole rank of liquidity had 0.00 significance level of 0.449 correlation coefficient with having leverage.

**Table1. Correlation test between liquidity variables and leverage in cross sectional method**

Title	Description	1381	1382	1383	1384	1385	1386	Test Result
Spread and Leverage	Correlation Coefficient	0.369	0.096	-0.064	-0.156	0.023	0.09	Reject of hypothesis H1
	Significance level	0.005	0.259	0.635	0.247	0.866	0.251	
Depth and Leverage	Correlation Coefficient	-0.330	0.46	0.069	0.199	-0.024	0.075	Reject of hypothesis H1
	Significance level	0.012	0.168	0.612	0.139	0.86	0.428	
Turnover Rate and leverage	Correlation Coefficient	-0.158	0.086	-0.052	0.085	-0.220	0.421	Reject of hypothesis H1
	Significance level	0.241	0.437	0.703	0.531	0.1	0.006	
Liquidity rank and leverage	Correlation Coefficient	0.336	0.37	0.449	0.068	0.076	0.038	Reject of hypothesis H1
	Significance level	0.011	0.494	0.000	0.617	0.574	0.12	

Due to largeness of significance level out of test level (in general format), all of the above results ended in

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rejection of H1 hypothesis. However, based on the pooled method the rank of liquidity has correlation

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coefficient of 0.22 with significance level of 0.003. As follows, the summary of the results of this test have been given by the method of total years.

**Table 2. Result of correlation test between liquidity variables and leverage**

Leverage	Pearson Correlation Coefficient	Significance Level	Test Level	Test Result
Difference of Spread and leverage	0.024	0.687	0.05	Reject of Hypothesis H1
Difference of Depth and leverage	0.007	0.906	0.05	Reject of Hypothesis H1
Difference of Turnover Rate and leverage	-0.080	0.176	0.05	Reject of Hypothesis H1
Difference of leverage rank and leverage	0.22	0.003	0.05	Reject of Hypothesis H0

Due to significance of the correlation test only in the method of the total years, the regression test was performed between dependent variables (liquidity) and independent variable (leverage) and all controlling variables (return, Cash Dividends, profitability, size). In this test, only the rank of liquidity also had a linear relation in the model. The determination coefficient of 0.151 and the moderated determination coefficient of 0.132 show that 0.132

percent of modifications of liquidity rank are anticipated by these variables. The significance of the total Regression Model is evaluated by ANOVA test and then the significance of individual coefficients is reviewed by the table of coefficients. The purpose of analysis of the regression variance is to evaluate the certainty about existence of a linear relation between the two variables.

**Table 3. Analysis of ANOVA and Durbin Watson's Test**

Description	Watson Durbin statistics	Determination Factor	Moderated determination factor	F statistics	Significance level	Result
Leverage and Spread	1.978	0.011	-0.011	0.612	0.802	There is no linear relation
Leverage and depth	1.914	0.014	-0.008	0.738	0.713	There is no linear relation
Turnover Rate and leverage	2.233	0.004	-0.018	0.148	0.981	There is no linear relation
Liquidly and leverage	1.723	0.151	0.132	0.619	0.000	There is no linear relation

Since Durbin Watson's statistics in the above table are placed at 1.5 till 2.5 time span which indicate the nonexistence of correlation among errors. In addition, because all achieved significance levels in the hatched boxes (liquidity rank and leverage) are less

than 0.05; they indicate the existence of a linear relation between mentioned variables and the model.

### **8. Leverage, Liquidity Rank and Controlling Variables**

**Table4. Liquidity variables significance coefficient & leverage at Regression Model based on pooled method**

Variable	Non standardized coefficient		Standardized coefficients	t	Significance level
Fixed Coefficient	150.266	17.113		8.781	0
Leverage	0.671	0.218	0.178	3.083	0.002
Profit	-0.205	0.044	-0.268	-4.61	0
Cash Dividend	-0.004	0.003	-0.079	-1.297	0.196
Profitability	-0.252	0.335	-0.046	-0.753	0.452
Size	-4.061	1.215	-0.193	-3.343	0.001

• By Studying the coefficient table well indicates the significance of some of coefficients (the hatched boxes) in the equation related to the leverage and liquidity rank. During the total model fitting,

fixed coefficient, first type leverage, return and size showed a significance level lower than 0.05. The aforesaid variables were fitness retested in order to estimate the main model.

**Table5. Durbin Watson's test and final model determination coefficient**

Model	Correlation Coefficient	Determination Coefficient	Moderated determination coefficient	Estimate standard deviation	Durbin Watson Statistics
1	0.376	0.141	0.132	63.55	1.708

**Table6. Coefficients and significance level at the final model**

Variable	Non standardized Coefficients		Standardized coefficients	t	Significance level
Fix coefficient	137.496	15.91	_____	8.642	0
Leverage	0.795	0.207	0.214	3.845	0
Profit	-0.199	0.041	-0.275	-4.869	0
Size	-4.07	1.198	-0.193	-3.396	0.001

• In this manner, one estimates the following linear relation between the rank and leverage

• of liquidity and controlling variables by considering Durbin Watson and Linearity of the Tests of Model:

$$LD = 137.496 + 0.795L - 0.199 RE - 4.070 S \quad (6)$$

In which:

LD (Liquidity Degree) = Average of the company's liquidity annual rank

L = Average of annual leverage (ratio of long-term debt to long term Assets)

RE = Average of the annual stocks return of the company

S = the size of the company (Total of the assets)

= Measurement error

This groups of theories deals with the existence of a significance difference between each of liquidity parameters in two leveraged and non leveraged independent companies. Results achieved by testing this group of theories in two cross sectional and total year methods showed that there is no significance difference between each one of liquidity variables of these two groups of companies. These results gained by Kroschall-valis test, have resulted in acceptance of  $H_1$  only during the year 2004. Similarly, these two groups of companies demonstrated a significant difference with each other by 0.043 of significant difference between difference of spread, 0.39 between difference of depth and 0.001 significant differences between liquidity ranks of two groups.

## 9. Secondary Theories

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**Table7. Difference and significance level of liquidity and leverage variables in two leveraged and non leveraged groups**

Title	Description	2002	2003	2004	2005	2006	2007	The Test result
Spread between the two groups	Average difference	-0.72	-0.05	0.89	0.64	-0.29	-0.35	Reject of Hypothesis H1
	Significance difference	0.762	0.873	0.043	0.702	0.649	0.541	
Depth between the two groups	Average difference	0.43	-0.02	-0.87	-0.74	0.86	-0.840	Reject of Hypothesis H1
	Significance difference	0.598	0.823	0.043	0.296	0.643	0.084	
Circulation between the two groups	Average difference	-0.61	1.19	-0.15	0.16	-0.42	-0.609	Reject of Hypothesis H1
	Significance difference	0.151	0.196	0.238	0.33	0.898	0.004	
Liquidity rank between two groups	Average difference	-27	12	-0.68	-12	-.11	-0.215	Reject of Hypothesis H1
	Significance difference	0.091	0.444	0.001	0.598	0.555	0.098	

The decision-making principle in this rest can also be the comparison of the significance level with the test level (0.05). Taking the achieved results in the above table into consideration, with 95% of certainty it can be stated that only the spread, depth and rank of liquidity of two leveraged and non leveraged groups of companies have had a significance difference with each other and in remaining years none of the liquidity variables did not demonstrate a significance difference in these two groups. However, on total years method, the rank of liquidity with significance

level of 0.002 rejected zero hypothesis and demonstrated a significant difference between these two groups of companies which in total one can mention that: The liquidity rank of non-leveraged companies is lesser(better) than the rank of the leveraged ones. In other words, one can express that the investors prefer the companies which have lower leverage than those having higher leverage. In the following part, the results of this test based on the pooled method:

**Table8. Difference and significance level of liquidity and leverage in two leveraged and non-leveraged groups by pooled method**

Year	Leveraged companies mean	Not leveraged companies mean	Significance level	Test Level	Test Result
Spread	0.373	0.502	0.367	0.05	Reject of Hypothesis H1
Depth	-0.431	-0.650	0.143	0.05	Reject of Hypothesis H1
Circulation	0.258	0.390	0.928	0.05	Reject of Hypothesis H1
Liquidity Rank	115	87	0.002	0.05	Reject of Hypothesis H1

Leverage is among those subjects the increase of which can influence the risk of the investor and his/her expected return. Since all shareholders have their own extra payments, it is not reasonable that we expect them to pay attention and react toward the increase of leverage and as a result toward increasing the possibility of bankruptcy. However, as it was mentioned in the result, while making decisions by the investors, the amount of debt used by the companies has had lower priority and the investors do not pay considerable reactions against increase of debt. Regarding the long-term debt, one can mention that due to the fact that the long-term debts allocate a small section from the left side of the balance sheet, perhaps one may anticipate the behavior of the investor and his/her lack of attention toward the long-term debts (which is necessary to mention that the major part of the long-term debts consists of retirement benefit provision). It is worth mentioning that the event and date of publication considered by this research may be the date of issuance of the audited financial reports being selected due to its more reliability. However, one should not ignore this reality that the disclosure of information in Iranian market results in considerable moderation of the prices prior to official publication and also one should note that most often, there is very huge time span between audited and unaudited financial reports that if the sensitivity of the investor toward financial leverage is considered, it is not unusual to be able to moderate the prices in a response to this aspect during such a time span.

#### 10. Conclusion and Suggestions

The overall results related to the current research which was conducted in two cross sectional and total years methods demonstrates that there is a weak relationship between the leverage (ratio of the long-term to long term assets) and liquidity rank. The other variables (price spread, stock depth and the Turnover Rate of Stock) did not show any significant relations. The leveraged companies showed higher liquidity rank (better rank) in comparison with the non-leveraged ones. With regard to this, the results of the current research corresponds with researches such as Simon (1996), W Butler, Groloun and Weston (2002), Mortal and L.Lipson (2003), Adryan and Shang shin(2008) , who have achieved a positive relation between leverage and liquidation. These results show that both the leverage and capital structure are considered as a related factor (even if they are weak ones) in decision-making trends of investors and shareholders and actually the investors take the risk of cash flows resulting from debt into account while taking decisions with their own parameters and principles.

Suggestions made out of research result:

- Informational asymmetry is one of the main reasons for the price spread and also the reduction of stocks liquidity at the market. The asymmetry results from lack of enough and prompt disclosure of information by the companies. If all the audited accounting information is presented in due course can have informational content and can involve in the process of pricing. Therefore, it is recommended to the Stock Exchange Organization to take more measures regarding establishment of necessary rules and regulations in order to maintain enough disclosure and information equilibrium and also due presentation of accounting and auditing information.

- One of the reasons behind the ambiguity of shareholders' reactions toward the distributed news can be the availability of restricting regulations such as base volume and the limitation of the economic fluctuation range. Such regulations adversely impact the natural trend of the market and the procedure of supply and demand. It is recommended to the Exchange organization to present appropriate approaches in order to assist in the completion of natural procedure of the market.

- Taking such various studies into account, the price spread and Stock Price Depth are considered as one of the significant and dependent tools of measuring liquidity of stocks. It is recommended that the Securities Exchange inserts the difference of prices of the suggested traded transaction accompanied by liquidity rank being used by investors, analysts and researches in its publicized reports by providing all required facilities.

- Considering the role of quality of disclosure played in liquidating the stocks of the companies, it is recommended to the managers to disclose complete information for investigators and in this way, reduce the informational asymmetry in the market and lower the indirect costs by increasing liquidity of stocks.

- By considering the effect of debt on the cash flows and risk and the company value and also since there are stockholders having extra payments in the companies, it is recommended to the stockholders and investors to pay attention to the balance sheet information and financial leverage of the companies while taking some investment decisions.

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