

ABSTRACT

Most of the previous studies with regard to the Financing choice of the firm i.e. Internal-External (and within external debt-Equity) Funding use standard single equation Probit (Logit) model as if firms face a single dichotomous decision to issue debt or equity, but not both. In this study, we examine factors choice between Internal-External and debt-equity funding as well as the size of issue using a two-stage Bivariate Probit-Tobit Model. A critical examination of factors affecting the choice of the form of financing supports some elements of pecking order theory, reputation effect and some elements of trade-off theory. Also it is concluded that a Bivariate probit-tobit estimation is more efficient than single equation models.

Keywords: Two-stage Bivariate Probit-Tobit Model, Pecking Order Hypothesis.