VANDANA BHAMA
Indian Institute of Technology, India

PRAMOD KUMAR JAIN
Indian Institute of Technology, India

SURENDRA SINGH YADAV
Indian Institute of Technology, India

DOES FIRMS' PECKING ORDER VARY DURING LARGE DEFICITS AND SURPLUSES? AN EMPIRICAL STUDY ON EMERGING ECONOMIES

Abstract:

The present study examines firms (of India and China) with normal as well as large deficits and surpluses. Using an extended model of pecking order theory, the study indicates that Indian and Chinese firms frequently issue debt when have normal deficits. Surprisingly during normal deficiencies, Chinese firms retire debt more frequently vis-a-vis Indian firms due to more reliance on short-term debt. The pecking order results are less supportive for Indian firms with large deficits due to high debt ratios that constrainfirms not to issue more debt. In marked contrast, the results are robust for Chinese firms. Firms continue to raise substantial debt even in the situation of high debt ratios. In a surplus situation (withnormal surpluses), Indian firms utilise surpluses as well as new debt proceeds to a partial extent to payback existing debt obligations to reduce their debt levels. In contrast, the results are excellent in favour of Chinese firms.During large surplus conditions, the results are extremely poor for Indian firms but weak for Chinese firms. Indian firms retain surpluses and new debt issuesfor future investment needs. In marked contrast, Chinese firms retain up to 40 per cent of their funds.

Keywords:

Pecking Order Theory; Financing; Deficit; Surplus; Debt; Equity

JEL Classification: G32