THE IMPACT OF LIQUIDITY ON THE CAPITAL STRUCTURE IN MANUFACTURING SECTOR IN MALAYSIA: EVIDENCE FROM BURSA MALAYSIA

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ABSTRACT

For a long time, liquidity of a company's asset and its impact on the optimal debt level has been a questionable issue among researchers in finance studies. Earlier examinations have shown that in certain countries, liquid companies expanded debt level while in different nations fluid organizations were not so much utilized but rather more routinely financed by their own capital. This study to determine the impact of liquidity on the capital structure in the manufacturing sector in Malaysia: evidence from Bursa Malaysia but only focus on one industry which is the Electrical and Electronic industry. Hausman test is applied whether this test to choose between two modal which random effect modal or fixed effect modal and this study chooses random effect modal. The liquidity of a company, which is the independent variable of this study, is measured by three common ratios which are: quick ratio, current ratio, and cash ratio. Additionally, the debt ratio represents the capital structures also known as leverage or debt financing. The results show the only the current ratio is significant with debt ratio and quick ratio and cash ratio are not significant to the debt ratio. According to the results, only the Current ratio has a negative effect on debt ratio; although, Quick ratio and Cash ratio is negatively related to debt ratio.