Capital structure decisions and the cost of debt: Evidence post-2008 financial crisis

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ABSTRACT

The prolonged period of ultra-low interest rates after the 2008 financial crisis offers a valuable opportunity to study whether the cost of debt affects corporate capital structure decisions. In line with the low cost of debt after the crisis, firms steadily increased debt, regardless of their profitability, growth prospects, and stock performance. The ubiquity of the increases in debt is consistent with the firms using more debt to lower their overall cost of capital, supporting the trade-off theory's prediction that capital is inversely related to its cost in imperfect markets.

JEL Codes: G30; G35

Keywords: Capital structure; Cost of capital; Low interest rates; Event studies.