# ABSTRACT

**Yohanes E. Anggrian (90120080001)**

## TRADEOFF OR PECKING ORDER: CAPITAL STRUCTURE POLICY SUITABLE FOR INDONESIAN FINANCIALLY DISTRESSED FIRMS

(xiii + 93 pages: 8 tables; 3 appendices)

Most of the previous studies have analyzed the valididty of Tradeoff and Pecking order not in the context of financial distress. The study of Liang and Bathala (2009) have already analyzed the validity of Tradeoff and Pecking Order theory for the financially distressed firm in US. This study have an appproach and analyzes the Indonesian firm in financial distress to find the empirical evidence on the issue as to whether the Indonesian firms in financial dstress follow Tradeoff model or Pecking Order model inadjusting their debt ratios. Usually, the firm in financial distress will make downward adjustment toward their debt ratios duse the the potential increase in bankruptcy costs. Since there is potential increase in transaction costs and bankruptcy costs , the firms will make adjustment to their debt ratios. The results shows that Indonesian Firms will follow Tradeoff approach in making adjustment for their debt ratios in the constext of financial distress.

References: 21 (1958-2009)