

CAPITAL STRUCTURE THEORIES IN IMPERFECT MARKETS: A CONTEXTUAL REAPPRAISAL

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ABSTRACT

This study provides a contextual reappraisal of capital structure theories within the framework of imperfect markets, where real-world frictions such as information asymmetry, agency conflicts, institutional inefficiencies, and macroeconomic volatility significantly influence corporate financing decisions. Moving beyond the assumptions of perfect markets, the paper integrates insights from trade-off theory, pecking order theory, and agency theory with emerging perspectives on financialization, behavioral finance, and institutional dynamics. Using a systematic literature review approach, the study synthesizes recent empirical and theoretical contributions to highlight how capital structure decisions vary across developed and emerging economies. The findings suggest that while traditional theories retain their relevance, their applicability is contingent upon contextual factors such as governance quality, financial market development, and economic conditions. Additionally, the study emphasizes the growing importance of behavioral biases and sustainability considerations in shaping financing choices. Overall, the research advocates for a holistic and multidisciplinary approach to understanding capital structure, offering valuable implications for academics, policymakers, and corporate managers operating in increasingly complex financial environments.

Keywords: Capital Structure, Imperfect Markets, Trade-off Theory, Pecking Order Theory, Agency Theory, Financialization, Behavioral Finance, Institutional Factors

INTRODUCTION

Capital structure has long remained one of the most debated and theoretically rich areas within corporate finance, particularly in the context of imperfect markets where real-world frictions significantly influence firm financing decisions. The classical foundation of capital structure theory can be traced to the irrelevance proposition of Modigliani and Miller, which posits that under perfect market conditions—characterized by no taxes, no transaction costs, and symmetric information—firm value is independent of its financing mix. However, such idealized conditions rarely exist in practice. Consequently, contemporary research has shifted toward understanding how imperfections such as information asymmetry, agency conflicts, taxation, institutional constraints, and behavioral biases shape capital structure choices. This

contextual reappraisal becomes particularly relevant in light of evolving global financial systems, emerging market dynamics, and increased financial fragility (Alami, 2018; Bonizzi, 2017; Rethel, 2018).

One of the most prominent theoretical responses to market imperfections is the trade-off theory, which suggests that firms determine their optimal capital structure by balancing the tax advantages of debt against the costs of financial distress and bankruptcy. Empirical investigations have shown that firms adjust their leverage ratios toward target levels, although the speed and consistency of adjustment vary across institutional environments (Dang et al., 2017, 2021; Memon et al., 2021). In imperfect markets, factors such as weak legal systems, limited creditor protection, and macroeconomic volatility can distort this balancing mechanism, leading to deviations from theoretically optimal capital structures (Krstevska et al., 2017; Kontuš et al., 2023).

Closely related is the pecking order theory, which emphasizes the role of information asymmetry between managers and investors. According to this theory, firms prefer internal financing over external sources, and when external financing is required, they prioritize debt over equity due to lower information costs. This hierarchy reflects the signaling problems inherent in imperfect markets, where issuing equity may be interpreted as a signal of overvaluation (Chen et al., 2015; Guo & Zhao, 2019). Empirical evidence suggests that this behavior is particularly pronounced in emerging economies, where transparency and disclosure standards are often less robust (Buvanendra et al., 2018; Jahanzeb et al., 2015).

Agency theory further enriches the understanding of capital structure by highlighting conflicts of interest between stakeholders, particularly between managers and shareholders, and between shareholders and debt holders. Debt can serve as a disciplinary mechanism to mitigate managerial opportunism by imposing fixed obligations; however, excessive leverage may exacerbate risk-shifting behavior and underinvestment problems (Balboa et al., 2017; Bragoli et al., 2016). In imperfect markets, agency costs are often magnified due to weak governance frameworks and limited monitoring mechanisms, thereby complicating financing decisions (Kannadhasan et al., 2018; Kang et al., 2018).

Institutional theory and contextual perspectives have gained increasing attention in recent years, emphasizing that capital structure decisions are embedded within broader socio-economic and regulatory environments. Differences in legal systems, financial market development, cultural norms, and government policies can lead to significant cross-country variations in leverage patterns (Giovannetti, 2021; Judge & Korzhenskaya, 2022). For instance, bank-based financial systems may encourage higher debt usage, while market-based systems may facilitate greater reliance on equity financing. Moreover, state intervention and political connections can influence access to capital and cost structures, particularly in developing economies (Maire, 2022; Madhavaram et al., 2021).

Another important dimension of imperfect markets is financialization, which refers to the increasing dominance of financial motives, markets, and institutions in the economy. This phenomenon has reshaped corporate behavior, with firms increasingly engaging in financial activities rather than productive investments. As a result, capital structure decisions are no longer driven solely by operational considerations but are also influenced by speculative opportunities and shareholder value maximization strategies (Bonizzi, 2017; Gu, 2021). This shift has raised concerns about long-term sustainability and systemic risk, especially in volatile economic environments (Alami, 2018; Enjolras et al., 2021).

Behavioral finance has also contributed to the evolving discourse on capital structure by challenging the assumption of rational decision-making. Managerial biases such as

overconfidence, optimism, and herding behavior can lead to suboptimal financing choices that deviate from theoretical predictions (M'ng et al., 2017; Saona et al., 2018). These behavioral factors are particularly relevant in imperfect markets where uncertainty and information gaps are more pronounced. For example, overconfident managers may underestimate bankruptcy risks and prefer higher leverage, while risk-averse managers may rely excessively on internal financing (Ghasemzadeh et al., 2021; Lin et al., 2020).

In addition to firm-level determinants, macroeconomic factors play a crucial role in shaping capital structure decisions in imperfect markets. Economic cycles, inflation rates, interest rate fluctuations, and exchange rate volatility can significantly impact the cost and availability of capital (Olani, 2020; Upreti et al., 2022). During periods of economic downturn, firms may face credit constraints and increased borrowing costs, leading to deleveraging or reliance on alternative financing sources. Conversely, favorable macroeconomic conditions may encourage higher leverage due to lower interest rates and improved investor confidence (Rodriguez-Satizabal, 2021; Saona et al., 2018).

Furthermore, the rise of sustainable finance and environmental, social, and governance (ESG) considerations has introduced new dimensions to capital structure decisions. Firms are increasingly aligning their financing strategies with sustainability goals, which may influence their choice of debt instruments, cost of capital, and investor base (Cărbăușu et al., 2018; Enjolras et al., 2021). Green bonds, social impact financing, and ESG-linked loans are becoming important components of modern capital structures, particularly in developed markets.

Given these complexities, a contextual reappraisal of capital structure theories in imperfect markets is both timely and necessary. Traditional theories provide valuable frameworks but often fail to capture the nuanced interactions between firm-specific factors, institutional environments, and macroeconomic conditions. Recent empirical studies have increasingly adopted multidisciplinary approaches, integrating insights from economics, finance, sociology, and political science to develop more comprehensive models of capital structure (Majumdar, 2021; Khachatryan et al., 2017).

In conclusion, capital structure in imperfect markets is a multifaceted phenomenon shaped by a wide array of factors beyond the simplistic assumptions of perfect market theory. The interplay between taxation, information asymmetry, agency conflicts, institutional frameworks, behavioral biases, and macroeconomic conditions necessitates a more holistic and context-sensitive approach. As global financial systems continue to evolve, particularly with the growing importance of emerging markets and sustainability considerations, the need for a re-examination of traditional capital structure theories becomes increasingly evident. This study aims to contribute to this ongoing discourse by synthesizing existing literature and offering a nuanced understanding of financing decisions in imperfect market environments.

LITERATURE REVIEW

The literature on capital structure in imperfect markets has evolved significantly over the past two decades, reflecting a shift from purely theoretical constructs toward more contextually grounded and empirically validated frameworks. While early theories such as the Modigliani–Miller proposition assumed perfect markets, subsequent research has increasingly acknowledged the pervasive role of market imperfections—such as asymmetric information, agency conflicts, taxation, institutional constraints, and macroeconomic volatility—in shaping firms' financing decisions. This body of literature offers a multidimensional understanding of capital structure, particularly in emerging and transitional economies where such imperfections are more pronounced.

A substantial stream of research builds on the trade-off theory, which posits that firms seek an optimal capital structure by balancing the tax benefits of debt against the costs of financial distress. Empirical studies have provided mixed evidence regarding the existence and stability of target leverage ratios. For instance, Dang et al. (2017, 2021) demonstrate that firms actively adjust their capital structures toward target levels, although the speed of adjustment varies depending on firm size, profitability, and institutional context. Similarly, Memon et al. (2021) highlight that firms in developing economies face constraints that hinder optimal adjustment, including underdeveloped financial markets and regulatory inefficiencies. These findings suggest that while the trade-off framework remains relevant, its applicability is contingent upon contextual factors such as market maturity and governance quality (Krstevska et al., 2017; Kontuš et al., 2023).

Parallel to this, the pecking order theory has received extensive empirical support, particularly in environments characterized by high information asymmetry. According to this theory, firms prioritize internal financing, followed by debt, and resort to equity issuance only as a last option. Chen et al. (2015) and Guo and Zhao (2019) provide evidence that firms avoid equity financing due to adverse selection costs and signaling concerns. This behavior is especially evident in emerging markets, where transparency and disclosure standards are weaker, leading to greater reliance on retained earnings and bank financing (Buvanendra et al., 2018; Jahanzeb et al., 2015). However, some studies challenge the universality of this hierarchy, arguing that firms may deviate from the pecking order due to external financing constraints or strategic considerations (M'ng et al., 2017).

Agency theory further enriches the literature by emphasizing the conflicts of interest between different stakeholders and their implications for capital structure. Balboa et al. (2017) and Bragoli et al. (2016) argue that debt can serve as a governance mechanism by disciplining managerial behavior and reducing free cash flow problems. However, excessive leverage may lead to risk-shifting and underinvestment issues, particularly when managers prioritize short-term gains over long-term value creation. Kannadhasan et al. (2018) and Kang et al. (2018) extend this perspective by highlighting the role of corporate governance structures in mitigating agency costs. Their findings indicate that firms with stronger governance mechanisms tend to exhibit more balanced capital structures, suggesting that institutional quality plays a critical role in aligning stakeholder interests.

In recent years, the literature has increasingly incorporated institutional and contextual perspectives to explain cross-country variations in capital structure. Giovannetti (2021) and Judge and Korzhenitskaya (2022) emphasize that legal systems, financial development, and cultural norms significantly influence firms' financing choices. For example, firms operating in bank-oriented financial systems tend to rely more heavily on debt, whereas those in market-based systems exhibit greater equity financing. Maire (2022) and Madhavaram et al. (2021) further argue that political connections and state interventions can distort capital allocation, particularly in emerging economies where access to finance is often influenced by non-market factors. These studies underscore the importance of embedding capital structure analysis within broader institutional frameworks.

Another important strand of literature focuses on financialization and its implications for corporate financing behavior. Bonizzi (2017) and Alami (2018) argue that the increasing dominance of financial motives has led firms to prioritize shareholder value maximization over productive investment. This shift has resulted in higher leverage levels and increased engagement in financial activities such as share buybacks and speculative investments. Gu (2021) and Rethel (2018) further highlight that financialization can exacerbate systemic risk by encouraging excessive risk-taking and short-termism. These findings are particularly

relevant in the context of global financial integration, where capital flows and financial innovations can amplify market imperfections.

Behavioral finance has also emerged as a critical dimension in the study of capital structure. Traditional theories assume rational decision-making; however, empirical evidence suggests that managerial biases can significantly influence financing choices. Saona et al. (2018) and Lin et al. (2020) find that overconfident managers are more likely to adopt higher leverage levels, underestimating the risks associated with debt financing. Ghasemzadeh et al. (2021) further demonstrate that behavioral biases can lead to deviations from optimal capital structures, particularly in uncertain and volatile environments. These insights highlight the need to integrate psychological factors into capital structure models, especially in imperfect markets where uncertainty is more pronounced.

Macroeconomic conditions also play a crucial role in shaping capital structure decisions. Olani (2020) and Upreti et al. (2022) emphasize that factors such as interest rates, inflation, and economic growth significantly affect firms' financing choices. During periods of economic expansion, firms are more likely to increase leverage due to favorable borrowing conditions and improved investor confidence. Conversely, economic downturns can lead to deleveraging and increased reliance on internal financing (Rodriguez-Satizabal, 2021). Saona et al. (2018) further note that macroeconomic instability can exacerbate financial constraints, particularly for small and medium-sized enterprises, thereby influencing their capital structure dynamics.

The literature has also explored the role of sustainability and ESG considerations in capital structure decisions. Căraușu et al. (2018) and Enjolras et al. (2021) argue that firms are increasingly aligning their financing strategies with environmental and social objectives. The emergence of green bonds and ESG-linked financing instruments has introduced new dimensions to capital structure, influencing both the cost and composition of capital. These developments reflect a broader shift toward sustainable finance, which is particularly relevant in the context of global climate challenges and regulatory pressures.

In addition to these thematic areas, several studies have focused on firm-specific determinants of capital structure. Factors such as profitability, asset tangibility, firm size, and growth opportunities have been consistently identified as key drivers of leverage decisions. For example, Mardones and Cuneo (2020) find that profitable firms tend to rely more on internal financing, consistent with the pecking order theory. Similarly, Khachatryan et al. (2017) and Pepur et al. (2016) highlight the importance of asset structure in determining borrowing capacity, as tangible assets can be used as collateral to secure debt financing. These findings reinforce the idea that capital structure is influenced by a combination of internal and external factors.

Recent contributions have also emphasized the importance of dynamic and integrative approaches to capital structure analysis. Majumdar (2021) and Gu (2021) advocate for the use of multidisciplinary frameworks that incorporate insights from economics, finance, sociology, and political science. Such approaches enable a more comprehensive understanding of the complex interactions between firm behavior, market conditions, and institutional environments. Similarly, Kontuš et al. (2023) and Judge and Korzhenitskaya (2022) highlight the need for longitudinal studies that capture the evolving nature of capital structure in response to changing economic and regulatory landscapes.

Overall, the literature on capital structure in imperfect markets underscores the limitations of traditional theories when applied in isolation. While frameworks such as the trade-off theory, pecking order theory, and agency theory provide valuable insights, their explanatory power is

significantly enhanced when combined with contextual and behavioral perspectives. The growing emphasis on institutional factors, financialization, macroeconomic conditions, and sustainability reflects a broader trend toward more holistic and nuanced analyses. This evolving body of research not only deepens our understanding of corporate financing behavior but also provides valuable implications for policymakers, investors, and corporate managers operating in increasingly complex and interconnected financial environments.

Table 1: Capital Structure Theories in Imperfect Markets: A Contextual Reappraisal

Author(s) & Year	Study Focus	Methodology	Key Findings	Implication
Dang et al. (2017, 2021)	Capital structure adjustment behavior	Dynamic panel data analysis	Firms adjust toward target leverage but at varying speeds depending on institutional settings	Supports trade-off theory but highlights contextual constraints
Chen et al. (2015)	Pecking order and information asymmetry	Empirical analysis using firm-level data	Firms prefer internal financing and debt over equity due to signaling issues	Confirms pecking order relevance in imperfect markets
Balboa et al. (2017)	Agency costs and capital structure	Theoretical and empirical approach	Debt acts as a disciplinary mechanism but increases risk-shifting issues	Highlights dual role of leverage in agency conflicts
Buvanendra et al. (2018)	Capital structure in emerging markets	Panel data analysis	Firms rely more on internal funds due to weak financial systems	Emphasizes importance of institutional development
Bonizzi (2017)	Financialization and corporate behavior	Conceptual and macro-financial analysis	Firms increasingly prioritize financial activities over productive investment	Shows shift in capital structure motives
Kannadhasan et al. (2018)	Corporate governance and leverage	Regression-based empirical study	Strong governance reduces agency costs and stabilizes capital structure	Governance quality is crucial in imperfect markets
Saona et al. (2018)	Behavioral factors in financing decisions	Quantitative behavioral finance approach	Managerial biases significantly influence leverage decisions	Challenges assumption of rational decision-making
Upreti et al. (2022)	Macroeconomic impact on capital structure	Econometric modeling	Interest rates, inflation, and growth affect leverage decisions	Highlights macroeconomic sensitivity of capital structure

METHODOLOGY

The present study adopts a theoretical and integrative research methodology to reappraise capital structure theories within the context of imperfect markets. Given the conceptual nature of the study, a qualitative approach based on systematic literature synthesis is employed to develop a comprehensive understanding of how traditional and contemporary

theories explain financing behavior under real-world market imperfections. The methodology is grounded in secondary data collected from peer-reviewed journal articles, working papers, and policy reports published between 2015 and 2023, ensuring both relevance and recency of insights (Dang et al., 2017, 2021; Kontuš et al., 2023).

The study follows a structured systematic literature review (SLR) approach, wherein relevant studies are identified through academic databases such as Scopus, Web of Science, and Google Scholar using keywords including “capital structure,” “imperfect markets,” “trade-off theory,” “pecking order theory,” and “agency theory.” Inclusion criteria are based on relevance to capital structure in imperfect or emerging market contexts, empirical robustness, and theoretical contribution. Approximately 30–35 high-quality studies are shortlisted and critically analyzed to identify recurring themes, contradictions, and research gaps (Chen et al., 2015; Buvanendra et al., 2018; Memon et al., 2021). To enhance analytical depth, the study employs a thematic analysis framework, categorizing the literature into key dimensions such as trade-off theory, pecking order theory, agency theory, institutional influences, behavioral finance, and macroeconomic determinants. This classification enables a comparative evaluation of theoretical perspectives and their applicability across different economic environments (Giovannetti, 2021; Judge & Korzhnitskaya, 2022). Additionally, contextual variables such as governance quality, financial market development, and regulatory structures are incorporated to assess how external conditions shape capital structure decisions (Kannadhasan et al., 2018; Upreti et al., 2022).

The study also integrates a comparative analytical approach to examine differences between developed and emerging markets, highlighting how varying institutional frameworks influence financing behavior. By synthesizing findings across diverse contexts, the research aims to develop a more nuanced and holistic understanding of capital structure dynamics (Alami, 2018; Bonizzi, 2017). Overall, this methodology provides a robust foundation for re-evaluating capital structure theories by bridging theoretical constructs with empirical realities, thereby offering deeper insights into financing decisions in imperfect market environments.

DISCUSSION

The discussion of capital structure theories in imperfect markets reveals that traditional frameworks, while foundational, require contextual adaptation to adequately explain real-world financing behavior. The trade-off theory, for instance, continues to provide a useful lens for understanding how firms balance tax benefits against bankruptcy costs. However, empirical evidence suggests that the assumption of a stable optimal capital structure is often unrealistic in environments characterized by institutional weaknesses, financial constraints, and economic volatility. Studies indicate that firms in emerging markets adjust their leverage more slowly and inconsistently due to limited access to capital markets and regulatory inefficiencies (Dang et al., 2017, 2021; Memon et al., 2021). This highlights the importance of incorporating institutional quality into the trade-off framework to improve its explanatory power (Kontuš et al., 2023).

Similarly, the pecking order theory finds strong support in imperfect markets, particularly where information asymmetry is pronounced. Firms tend to rely heavily on internal financing and debt while avoiding equity issuance due to adverse signaling effects. This behavior is consistent with findings that equity markets in developing economies often lack transparency and investor confidence, thereby increasing the cost of external equity financing (Chen et al., 2015; Guo & Zhao, 2019). However, deviations from the pecking order are also observed when firms face financial constraints or pursue strategic financing decisions, suggesting that

the theory is not universally applicable but context-dependent (Buvanendra et al., 2018; Jahanzeb et al., 2015).

Agency theory adds another critical dimension by explaining how conflicts between managers, shareholders, and creditors influence capital structure decisions. Debt can act as a governance mechanism by limiting managerial discretion and reducing free cash flow problems. However, excessive reliance on debt may lead to risk-shifting and underinvestment issues, particularly in firms with weak governance structures (Balboa et al., 2017; Bragoli et al., 2016). Empirical studies emphasize that strong corporate governance mechanisms, such as board independence and ownership concentration, can mitigate these agency conflicts and lead to more efficient capital structures (Kannadhasan et al., 2018; Kang et al., 2018). This suggests that governance quality is a key moderating factor in the relationship between leverage and firm performance.

The discussion also underscores the growing importance of institutional and contextual factors in shaping capital structure decisions. Cross-country studies demonstrate significant variation in leverage patterns due to differences in legal systems, financial development, and cultural norms. Firms operating in bank-based systems tend to rely more on debt financing, whereas those in market-based systems exhibit a greater preference for equity (Giovannetti, 2021; Judge & Korzhenitskaya, 2022). Additionally, political connections and state interventions can influence access to finance, particularly in emerging economies where market mechanisms are less developed (Maire, 2022; Madhavaram et al., 2021). These findings reinforce the argument that capital structure cannot be analyzed in isolation from its broader institutional environment.

Another significant insight from the literature is the impact of financialization on corporate financing behavior. The increasing dominance of financial motives has led firms to prioritize short-term shareholder value over long-term investment. This shift is reflected in higher leverage levels and increased engagement in financial activities such as share buybacks and speculative investments (Bonizzi, 2017; Alami, 2018). While financialization can enhance liquidity and market efficiency, it also introduces systemic risks by encouraging excessive risk-taking and reducing the focus on productive investment (Gu, 2021; Rethel, 2018).

Behavioral factors further complicate capital structure decisions in imperfect markets. Managerial biases such as overconfidence and optimism can lead to deviations from theoretically optimal financing choices. For example, overconfident managers may underestimate the risks associated with debt and adopt higher leverage levels, while risk-averse managers may rely excessively on internal financing (Saona et al., 2018; Lin et al., 2020). These findings challenge the assumption of rational decision-making and highlight the need to incorporate behavioral insights into capital structure models (Ghasemzadeh et al., 2021).

Macroeconomic conditions also play a crucial role in influencing capital structure. Fluctuations in interest rates, inflation, and economic growth can significantly affect the cost and availability of capital. During economic downturns, firms often reduce leverage due to increased borrowing costs and financial uncertainty, whereas favorable economic conditions encourage higher debt usage (Olani, 2020; Upreti et al., 2022). This cyclical behavior suggests that capital structure is dynamic and responsive to external economic factors rather than being fixed at an optimal level. Overall, the discussion highlights that capital structure in imperfect markets is shaped by a complex interplay of theoretical, institutional, behavioral, and macroeconomic factors. Traditional theories provide valuable insights but must be integrated with contextual variables to fully capture the realities of corporate financing

decisions. This reinforces the need for a more holistic and adaptive approach to understanding capital structure in diverse economic environments.

CONCLUSION

The analysis of capital structure theories in imperfect markets underscores the limitations of traditional theoretical frameworks when applied to real-world financial environments. While foundational theories such as the trade-off theory, pecking order theory, and agency theory continue to provide important insights into corporate financing decisions, their explanatory power is significantly influenced by the presence of market imperfections. Factors such as information asymmetry, institutional inefficiencies, governance structures, macroeconomic instability, and behavioral biases collectively shape how firms determine their capital structures. As a result, no single theory can fully explain financing behavior across different contexts, reinforcing the need for a more integrated and adaptive approach (Dang et al., 2017, 2021; Kontuš et al., 2023).

The trade-off theory, although conceptually robust, appears less effective in environments where firms face constraints in achieving optimal leverage. Empirical evidence suggests that firms in imperfect markets often deviate from target capital structures due to regulatory limitations, underdeveloped financial systems, and external shocks (Memon et al., 2021; Krstevska et al., 2017). Similarly, the pecking order theory finds strong support in contexts characterized by high information asymmetry, yet it does not universally apply when firms encounter financing constraints or strategic considerations that necessitate alternative funding choices (Chen et al., 2015; Buvanendra et al., 2018).

Agency theory contributes significantly by highlighting the role of governance mechanisms in influencing capital structure decisions. The use of debt as a disciplinary tool can reduce managerial opportunism, but excessive leverage may introduce new conflicts, particularly in weak governance environments (Balboa et al., 2017; Kannadhasan et al., 2018). This duality emphasizes the importance of institutional quality and corporate governance in achieving balanced financing decisions. In this regard, cross-country variations further demonstrate that legal frameworks, financial development, and political influences play a critical role in shaping capital structure outcomes (Giovannetti, 2021; Judge & Korzhenskaya, 2022).

Moreover, the growing influence of financialization has altered traditional corporate financing behavior by shifting the focus toward short-term financial gains and shareholder value maximization. This transformation has led to increased leverage and speculative financial activities, raising concerns about long-term sustainability and systemic risk (Bonizzi, 2017; Alami, 2018). At the same time, behavioral finance introduces an additional layer of complexity, as managerial biases and cognitive limitations can lead to deviations from theoretically optimal capital structures (Saona et al., 2018; Ghasemzadeh et al., 2021). Macroeconomic conditions further reinforce the dynamic nature of capital structure decisions. Changes in interest rates, inflation, and economic growth significantly influence firms' access to and cost of capital, leading to adjustments in leverage over time (Olani, 2020; Upreti et al., 2022). These findings highlight that capital structure is not static but evolves in response to both internal and external factors.

In conclusion, the reappraisal of capital structure theories in imperfect markets demonstrates that financing decisions are inherently complex and context-dependent. A holistic framework that integrates theoretical insights with institutional, behavioral, and macroeconomic considerations is essential for a more accurate understanding of corporate financing behavior. This study contributes to the literature by emphasizing the need for such an integrative

perspective, which can inform both academic research and practical decision-making in increasingly uncertain and interconnected financial environments.

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