

AN EMPIRICAL INVESTIGATION INTO THE RELATIONSHIP
BETWEEN FINANCIAL LEVERAGE AND SHARE PRICE OF
**AN EMPIRICAL INVESTIGATION INTO THE RELATIONSHIP
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COMPANIES**



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ABSTRACT

This is an empirical study that investigates the relationship between financial leverage and share price of companies. Findings of this research are useful to the investors who wish to invest in the shares and the management of the companies.

Financial leverage of the company is measured by using the Debt to equity ratio, Debt to total assets ratio. Debt service capacity also use as a variable to measure the financial leverage. Share price of the company is measured by using the share price index calculated by dividing the average share price of the year by base year average share price index.

Data needed to the research was collected from 100 annual reports which are related to 25 companies listed in CSE from 3 sectors for four years from 2010 to 2013. Researcher use correlation analysis to measure the relationship between the variables.

According to the correlation analysis there is a weak negative relationship between the financial leverage and the share price of companies. According to the sector wise comparison of correlation values there is no any difference amongst the different business sectors.

Key words: Financial leverage, Share price

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