ABSTRACT

The purpose of this research is to examine the impact of volatility of cash flow on leverage levels of the firm. It also investigates other variables that may affect the leverage levels of Pakistani firms. The measures are constructed for volatility of cash flow as five-year rolling standard deviation of cash flows from operations. (GLM) approach is applied to examine the effect of VCF on leverage levels. To eliminate possible outliers, VCF is winsorized at 1st and 99th percentile. Ordinary Least Square (OLS) is also applied as an alternative approach. It is found that volatility of cash flow is inversely proportional to the leverage of the firm. Pakistani markets consider firms more risky than recorded in books. Volatility of cash flow (VCF) is an important factor that affect the firms directly. Earlier empirical studies about relationship between VCF and leverage levels is not conclusive. On the other hand, existing studies mainly focused on developed countries. No earlier comprehensive study has been conducted on Pakistani firms with variables used in this study. This study fulfills that gap by applying models and variables in this study.

Key words: Volatility, Leverage, Cash Flow, Debt Level