

## **The Pecking Order Theory vs. the Tradeoff Theory: Is There A Race?**

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*Using a large sample of non-financial US-listed firms, I test the pecking order and the trade off theories after incorporating firm life cycle into the analysis and improving some measures and models used in testing these two theories. I find that the financing behavior of an average firm follows the predictions of the pecking order theory in the introduction and growth stages of its life cycle, but converges towards that predicted by the trade off theory as the firm approaches the maturity stage without infringing the pecking order hierarchy. The two theories are not mutually exclusive; the pecking order is the tactic used by firms to cover their financing deficit and arrive at their long-run target leverage level.*

**Key words:** firm life cycle, debt capacity, the financing deficit, net debt issuance, net equity issuance.

**JEL classification:** G32