

ABSTRACT

Firm's financing decision can be reflected in its capital structure. Capital structure describes the proportionate level of debt and equity. Financial leverage may bring an increase or decrease in shareholders' wealth. Financial leverage uses fixed financing cost to magnify the firm's earning. The use of financial leverage is very important for firm because it may affect the value of firm. The objective of this study is to determine the correlation between financial leverage and cost of capital, price earning ratio and value of firm on Indonesia LQ45 firms within 2005 – 2009 periods. Karl's Pearson bivariate correlation is used to test the correlation among the variables. The result shows that there is no correlation between financial leverage and cost of capital; negative significant correlation between financial leverage and price earning ratio; and no correlation between financial leverage and value of firm.

Keywords : Financial Leverage, Cost of Capital, Price Earning Ratio, Value of Firm.