

Referee report

The Inner Structure of Pyramid and Capital Structure: Evidence from China

The paper concerns a very interesting topic, with an original point of view. The results are interesting as well. It follows some suggestions.

- Before Hypotheses H3 and H4I would suggest to better discuss about the meaning and the implication of poor institutional investment in particular with regards to the impact on pyramid structure. Why in this contexts the inner structure of pyramid will have a large impact on corporate capital structure decisions? It is not clear in the text and instead it is something important it has to be explained. In general this part does not convince me very much. For example, I couldn't be exactly agree with this sentence: "banks will avoid companies which have serious agency problems of pyramid structures, and pursue less risky companies instead" ... banks could prefer to provide loans to firms that are part of a group compared to independent and single firms. In this sense a kind of coinsurance effect among firms being part of the pyramids could be favorable for the banks.
- Hypotheses H3 and H4 have to be better formulated. The starting point could be synthetized and considering that the conclusion are identical it could be possible to put together in a sentence that suggests that "both the impact of the layers and the number of chains of pyramid structure on corporate capital structure is relatively smaller."
- Capital structure should be measured using total financial debt, interest bearing debt, considering out of the calculation trade debt. It is like this? Reading the paper I'm not sure. Moreover, I suggest to show, in a "further test" paragraph, the results considering also short vs long term debt to see eventual different effects. Is should be something interesting to know.
- In the model you controlled for growth opportunity by the Tobin's Q ... It should be explained in a footnote the eventual differences in the calculation with the way it is determined in other empirical papers concerning US.
- In the period of analysis there are also the year 2008 and 2009. If for China are not period of crisis it has to be stated at least in a footnote. Otherwise, it has to be stated how the crisis period affected the analysis ...may be dummies for the 2008 and 2009 for control could be not enough and instead it could be interesting to see any eventual differences in the results.

Minor comments:

- Many times there is no the due space between words and the citations in brackets. Moreover, sometimes there are double space.
- I would avoid to talk about "perfect law environment" ... perfect world is something that exists just in theoretical analysis.