

CIFREM SEMINARS

CASH HOLDING POLICY AND ABILITY TO INVEST: HOW DO FIRMS DETERMINE THEIR CAPITAL EXPENDITURES?

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Thursday 01st March 2007

4pm DISA Seminar Room

Via Inama, 5

The aim of this paper is to investigate how alternative cash-holding policies influence the firms' ability to invest of a large sample of UK non-financial listed firms over the period 1991-2002. Our findings show that those firms displaying a persistently low cash policy invest less in capital expenditures, but they do not seem to be more exposed to capital markets imperfections than other companies. They seem to have access to alternative sources of funds, although there is only a marginal evidence of increase in future capital expenditure and, at most, in planned acquisitions. On the contrary, results report that being a cash-rich firm has a strong significant impact on capital expenditures. Furthermore, a persistently high cash policy seems to decrease the investment sensitivity to cash flow suggesting that this policy may reduce the exposure of companies to capital market imperfections. In addition, a strategy of accumulation of internal funds allows companies to invest both in fixed assets and in high growth projects, complete planned acquisitions and increase dividend payment over time.

Referente

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