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The Determinants of Target Cash Holdings and Adjustment Speeds: An Empirical Analysis of Chinese Firms

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Abstract


This study examines the determinants of target cash reserves among publicly listed Chinese firms in the 1998 to 2009 period, and how actual levels of cash holdings adjust towards target cash reserves. The consistency of the determinants of cash reserves with the static trade-off, pecking order and the free cash flow theories, in so far as they relate to cash holdings of firms, are also evaluated. Results of the study support the existence of target cash reserves in Chinese firms, and that they are a function of a range of firm specific characteristics that include leverage, cash flow, dividend payout, liquidity, tangibility, investment opportunities, managerial ownership, and ownership concentration. Results further suggest that contrary to expectations, the adjustment speed towards target levels are quite rapid and similar to the adjustment speeds observed in longer established markets.

Keywords: Target cash holdings, Chinese firms, Adjustment speeds

JEL Classification: G15, G32, G35

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