

[Download This Paper \(Delivery.cfm/SSRN_ID285108_code010925670.pdf?abstractid=285108&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID285108_code010925670.pdf?abstractid=285108&mirid=1&type=2\)](#)[Add Paper to My Library](#)Share:

The Economic Versus Accounting Impacts of R&D on U.S. Market-to-Book Ratios

32 Pages

Posted: 25 Sep 2001

John R. M. Hand (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16845)

University of North Carolina Kenan-Flagler Business School

Date Written: September 25, 2001

Abstract

This paper examines the extent to which the rise in U.S. market-to-book ratios over the period 1980-2000 is due to expenditures on R&D becoming more profitable versus simply becoming more prevalent. More profitable R&D increases the numerator of the market-to-book ratio, while the biased nature of U.S. GAAP means that more prevalent spending on R&D depresses the denominator. I seek to disentangle these effects by measuring annually the NPV of R&D expenditures and the revenue intensity of R&D spending, and then testing to see which better explains variation in annual market-to-book ratios. I find that the profitability of R&D tripled in the 1990s relative to the 1980s, and the revenue intensity of R&D spending doubled. Although the simple correlations between market-to-book ratios and the NPV of R&D and the intensity of spending on R&D are both strongly positive, multivariate tests indicate that the influence of increased spending on R&D entirely dominates that of higher R&D profitability. For R&D, the impact of biased accounting swamps that of improved economic profitability.

Keywords: R&D; Market-to-book ratio; Profitability; Conservative accounting**JEL Classification:** G12, G31, M21, M41, O32[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID285108_code010925670.pdf?abstractid=285108&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID285108_code010925670.pdf?abstractid=285108&mirid=1&type=2\)](#)

20 References

1. H G Grabowski , D C Mueller
Industrial research and development, intangible capital stocks, and firm profit rates
The Bell Journal of Economics , p. 328 - 343 Posted: 1978
Crossref (<https://doi.org/10.2307/3003585>)
2. Z Griliches
Market value, R&D, and patents
Economic Letters , volume 7 , p. 183 - 187 Posted: 1981
Crossref ([https://doi.org/10.1016/0165-1765\(87\)90114-5](https://doi.org/10.1016/0165-1765(87)90114-5))
3. B Hall
The stock market's valuation of research and development during the 1980s
~~American Economic Review , volume 83 , p. 259 - 264 Posted: 1993~~

We use cookies that are necessary to make our site work. We may also use additional cookies to analyze, improve, and personalize our content and your digital experience. For more information, see our [Cookie Policy](#) (<https://www.elsevier.com/legal/cookiepolicy>)

[Load more](#)[Cookie Settings](#)[Accept all cookies](#)

0 Citations

Fetch Citations

Do you have a job opening that you would like to promote on SSRN?

Place Job Opening (<https://www.ssrn.com/index.cfm/en/Announcements-Jobs/>)

Paper statistics

DOWNLOADS	995
ABSTRACT VIEWS	4,771
RANK	44,243

8 Citations

20 References

PlumX Metrics



(https://plu.mx/ssrn/a/?ssrn_id=285108)

Related eJournals

- Kenan Institute of Private Enterprise Research Paper Series (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=3144545)

Follow

i
- Financial Accounting eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1508710)

Follow

i

View more >

Recommended Papers

- The Stock Market Valuation of Research and Development Expenditures (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=195488&rec=1&srcabs=285108&pos=1)
By Louis K.c. Chan (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16598), Josef Lakonishok (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=27295), ...
- The Stock Market Valuation of Research and Development Expenditures (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=227564&rec=1&srcabs=285108&pos=2)
By Louis K.c. Chan (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16598), Josef Lakonishok (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=27295), ...
- The Risk and Return from Factors (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=58418&rec=1&srcabs=285108&pos=3)
By Louis K.c. Chan (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=16598), J. Karaceski (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=58425), ...

View more >

Feedback

Submit a Paper > (<https://hq.ssrn.com/submission.cfm>)

