

[Working Papers](#)

Do Financing Constraints Explain Why Investment is Correlated with Cash Flow?

Steven N. Kaplan & Luigi Zingales

SHARE



WORKING PAPER 5267

DOI 10.3386/w5267

ISSUE DATE September 1995

This paper investigates the sources of the correlation between corporate cash flow and investment by undertaking an in-depth analysis of the 49 low-dividend firms identified by Fazzari, Hubbard, and Petersen (1988) as having an unusually high investment-cash flow sensitivity. We find that in only 15% of firm-years is there some question as to a firm's ability to access internal or external funds to increase investment. Strikingly, those firms that appear less financially constrained exhibit a significantly greater investment-cash flow sensitivity than firms that appear more financially constrained. We find this pattern for the entire sample period, for sub-periods, and for individual years. The results indicate that a higher sensitivity cannot be interpreted as evidence that a firm is more financially constrained. We discuss reasons and provide evidence why the opposite may be true. These findings challenge much of the existing evidence on the effects of financial constraints.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Published Versions

Quarterly Journal of Economics, feb.1997, 169-215.

Related

PROGRAMS

Corporate Finance

Public Economics

More from the NBER



In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Health](#), and the [Bulletin on](#)

Entrepreneurship — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



Martin Feldstein Lecture, Summer Institute 2025

The Fiscal Future

N. Gregory Mankiw, Harvard University and NBER
July 10, 2025

2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw, "The Fiscal Future"

FELDSTEIN LECTURE

PRESENTER: [N. GREGORY MANKIW](#)

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...



Methods Lecture, Summer Institute 2025
**Uncovering Causal Mechanisms:
Mediation Analysis and
Surrogate Indices**



Raj Chetty, Harvard University and NBER
Kosuke Imai, Harvard University
July 24, 2025

**2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms:
Mediation Analysis and Surrogate Indices"**

METHODS LECTURES

PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...



International Trade and Macroeconomics, Summer Institute 2025

Panel on The Future of the Global Economy

Oleg Itskhoki, Harvard University and NBER
Paul Krugman, City University of New York and NBER
Linda Tesar, University of Michigan and NBER
July 8, 2025

2025 International Trade and Macroeconomics, "Panel on The Future of the Global Economy"

PRESENTERS: [OLEG ITSKHOKI](#), [PAUL R. KRUGMAN](#) & [LINDA TESAR](#)

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

National Bureau of Economic Research

Contact Us

1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

HOME PAGE

Accessibility Policy

Diversity Policy

Privacy Policy

FOLLOW

