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# R&D investment and internal finance: the cash flow effect


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Acknow

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## Notes

Classical references are Akerlof ([1970](#)) and Stiglitz and Weiss ([1981](#)).

See, e.g. Holmstrom and Tirole ([1997](#)) and Townsend ([1979](#)).

Examples are Fazzari et al. ([1988](#)), Gilchrist and Himmelberg ([1995](#)).

Among them, Hao and Jaffe ([1993](#)), Himmelberg and Petersen ([1994](#)), Hall ([1992](#)), Mulkay et al. ([2001](#)), Boughaes et al. (2003). A review of literature on the financing of R&D can be found in Hall ([2002](#)).

See, e.g. Østrup ([1994](#)) and Andersen et al. ([2001](#)).

See, e.g. Østrup ([1994](#)).

Annual account data are from the Account Database from the Copenhagen Business School. Stock market data is obtained from the Danish Stock Database from the Center of Analy

See [Kap](#) Fazzari et al. (2000). S number of a investments and

A firm's flow to assets

These ch from the author.

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That is, average  $Q$ , which empirical approximations are a proxy of, is equal to marginal  $Q$ . See Hayashi ([1982](#)).

Though, see Himmelberg and Petersen ([1994](#)).

See, e.g. Fazzari et al. ([1988](#)) and Hubbard ([1998](#)).

See also Cleary ([1999](#)).

That is, the expected value of  $Q$  in period  $t + 1$  based on information in period  $t$ .

As a reference, the market capitalization of the NYSE (source: NYSE's web site) was slightly higher than US GDP in 2001 (GDP data from OECD).

R&D among firms listed on the CSE amounts to a little under half of total private sector R&D in Denmark, which was DKK 21.9 billion. See Danish Centre for Studies in Research and Research Policy (2003).

See, e.g. Malerba and Orsenigo ([1997](#)).

Where, due to the number of observations, some sectors have been combined [industrials (20), materials (15) and utilities (55); consumer discretionary (25) and consumer staples (30); information technology (45) and telecommunications (50)].

The regression model estimated by Petersen et al. ([2001](#)) and used in the Tobin's  $Q$  model (Fazzari and Hubbard approach). Among the variables used are Fazzari and Petersen ([1993](#)).

See the regression model with random effects (Fazzari and Hubbard approach) available on request.

See Hausman and Pagan (1978) for a discussion of the Hausman test. Coefficient estimates are available on request.



Where as larger firms, for example, may be able to issue their own bonds.

See [Table A1](#).

Their classifications take into account other factors, among them management statements on liquidity positions in annual reports, though firms' cash positions are a central factor.

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