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

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## Abstract

This paper investigates the cash flow effect on R&D investments for firms in Denmark. Evidence is found that internal funds are important in explaining R&D investments, indicating that R&D investment decisions are affected by credit market imperfections. Cash flow sensitivities are larger both for smaller firms and for firms with low debt relative to assets. Furthermore, this effect is also present after controlling for cash flow's potential role as a predictor of future profitability.

 Keywords: [R&D](#) [Cash flow](#) [Internal finance](#) [Financial constraints](#) [Credit market imperfections](#)

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