Financial Economics 2

Week 7: Empirical Corporate Finance – Financing Constraints and Corporate Investment (Steve Bond)

Suggested readings

The first two articles provide overviews. The remainder are some of the main papers in this literature.

R.G. Hubbard, 1998, 'Capital-market imperfections and investment', *Journal of Economic Literature*, 36, 193-225

S.R. Bond and J. Van Reenen, 2007, 'Microeconometric models of investment and employment', Chapter 65 of J.J. Heckman and E.E. Leamer (eds), *Handbook of Econometrics, Volume 6A*, North-Holland, esp sections 3.1-3.1 and 6.1-6.2. Also available at http://www.ifs.org.uk/publications/3277

S.M. Fazzari, R.G. Hubbard and B.C. Petersen, 1988, 'Financing constraints and corporate investment', *Brookings Papers on Economic Activity*, 1988(1), 141-195

S.N. Kaplan and L. Zingales, 1997, 'Do investment-cash flow sensitivities provide useful measures of financing constraints?', *Quarterly Journal of Economics*, 112, 169-216

R.W. Cooper and J. Ejarque, 2003, 'Financing frictions and investment: requiem in Q', *Review of Economic Dynamics*, 6, 710-728

S.R. Bond, A. Klemm, R. Newton-Smith, M. Syed and G.W. Vlieghe, 2004, 'The roles of expected profitability, Tobin's Q and cash flow in econometric models of company investment', Bank of England Working Paper no. 222. Available at http://www.bankofengland.co.uk/publications/workingpapers/wp222.pdf

J.G. Cummins, K.A. Hassett and S.D. Oliner, 2006, 'Investment behaviour, observable expectations, and internal funds', *American Economic Review*, 96, 796-810

C.A. Hennessy, A. Levy and T.M. Whited, 2007, 'Testing Q theory with financing frictions', *Journal of Financial Economics*, 83, 691-717

C.A. Hennessy and T.M. Whited, 2007, 'How costly is external financing? Evidence from a structural estimation', *Journal of Finance*, 62, 1705-1745

S.R. Bond and M. Söderbom, 2013, 'Conditional investment-cash flow sensitivities and financing constraints', *Journal of the European Economic Association*, 11, 112-136