

IBE/GPERC Seminar

Date: Wednesday, 25th April, 2018, 4-5 pm.

Location: QA039, Queen Ann Building, Greenwich Campus SE10 9LS.

Title: The Q theory of Investment: Novel Findings from an Augmented Tobin's Q model.

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Abstract:

The role of expectation about future profitability in determining the optimal level of firm's investment has been a topic of interest for economists for a long time. Following the seminal Mairesse and Siu's (1984) paper, we develop an augmented Tobin's Q model, in which the symmetric growth rate of Tobin's average Q, our measure of the revision of expected profitability, is tested for its effect on firm R&D investment decision. In addition, we argue that this measure of Tobin's Q cannot be the sole determinant of firm's investment as what was suggested in the original idea, and the other factors: product-market competition, R&D spillovers and corporate governance quality can contribute significantly to R&D investment model. Utilizing system GMM estimator on a big dataset of 3,718 manufacturing firms from 15 OECD countries over the 2005-2013 period, our empirical results provide support for the augmented Tobin's Q model, in which several different but not contradictory theories can be considered together, in order to explain more completely the R&D investment decision-making process at micro-level.