

POSTGRADUATE SEMINAR SERIES

Topic Defence Seminar

Topic Title: **Investment and Uncommitted Debt Issuance**

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Abstract : While Tobin's Q has perfect theoretical clout, measuring Tobin's Q empirically is challenging and it is difficult to capture the dynamics of investment at the firm level. Despite there are other theories that explain the investment rate in terms of cash flow, almost all of them are from the equity side. In order to address this issue, we model a firm's equity value and bond price as coupled Hamilton-Jacobi-Bellman equations, with both variational inequalities linking the bond's Q and marginal Tobin's Q. Under this setup, investment and debt issuance are linearly related to bond price, with creditors determining the bond price. Creditors may require borrowers to maintain constant face debt value or book leverage, which we define as commitment. Through the use of moment estimators using stationary distribution and simulated samples, we found that debt commitment re-prices the bond and imposes significantly negative effects on investment, with different patterns observed in firms with high and low Tobin's Q. To verify the validity of these findings in the real world, we merge loan market deal data and firm characteristics to identify the causal effects of flexible debt issuance (bond's Q) and its cross-effects with market-to-book asset value (average Tobin's Q). Our empirical results are consistent with the predictions in the model.

Date : **23 April 2024, Tuesday**

Time : **1:00 pm - 2:30 pm**

Venue : **SEK108, 1/F, Simon & Eleanor Kwok Building**

Language : **English**



**** All are Welcome ****