The Effect of Debt, Firm Size, and Liquidity on Investments-Cash Flow Sensitivity: Evidence from Iran

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Abstract

The cash flows of a business are the most basic concepts in accounting. Cash flows have a significant impact on investments, as they are less expensive than external sources of finance and can be more readily controlled by managers. Therefore, changes in cash flows can lead to changes in investment, also called investment-cash flow sensitivity, which can be affected by firm-specific attributes such as size, liquidity, and capital structure. Thus, the purpose of this research is to examine the effect of debt, firm size, and liquidity on investment-cash flow sensitivity. 840 firm-year observations in a sample of firms listed on Tehran Stock Exchange in the period 2007-2012 were examined. Test of stationary, F-test, Hausman test, and panel data (fixed effects) were used for data analysis. In sum, the results showed that debt and firm size had a significant positive effect and liquidity had a significant negative effect on investment-cash flow sensitivity.

Keywords: Investment-cash flow sensitivity, debt, firm size, liquidity.
10. References


