Cash Policies and Firm Size

Prof. Max Reppen
Boston University

Abstract

Understanding firms’ demand for cash is critical for answering many economic questions. We develop a model of firm dynamics allowing for heterogeneous size. The firm faces costly financing, fixed costs, and decreasing returns to scale. Surprisingly, the firm’s demand for cash is U-shaped in firm size. When the firm is small, growth lowers cash demand because the relative size of the fixed costs declines sharply. Eventually, growth increases cash demand as the scale of the cash flow shocks increases. Consequently, cash holdings and issuance amounts (payout rates) are U-shaped (hump-shaped) in firm size. We find empirical support for these predictions.

Date
Jan 19, 2023 (Thursday)
(HK Time)

Time
09:30 am – 10:30 am
(HK Time)

Zoom
https://cuhk.zoom.us/j/99697269848?pwd=L1B3ck1MVk83c1BPejAxAxN1BxM1ZBQT09
Meeting ID: 996 9726 9848
Passcode: 255863

About the speaker

Prof. Max Reppen got his PhD in 2018 from ETH Zürich. After a postdoc at Princeton University ORFE, he joined Questrom School of Business at Boston University as an Assistant Professor in 2020. His current research interest covers optimal singular control and machine learning, with applications in optimal dividend problems, modelling market frictions, as well as cryptocurrencies.