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INVESTMENT-CASH FLOW SENSITIVITY AND FINANCING CONSTRAINTS: A STUDY OF PAKISTANI BUSINESS GROUP FIRMS

Yasir Mehmood

*MS-Banking and Finance, department of management sciences, COMSATS University
Islamabad-Abbottabad Campus, Pakistan.
yasirpk30@gmail.com*

Syed Amjad Farid Hasnu

*Professor, department of management sciences, COMSATS University Islamabad-
Abbottabad Campus, Pakistan.
hasnu@cuiatd.edu.pk*

Abstract

A large discrepancy exists on the use of the investment–cash flow sensitivity as a measure of financing constraints of firms. We examine this discrepancy by considering business group affiliated firms in Pakistan. The study includes 58 group affiliated firms and 32 non-group affiliated firms listed on the Karachi Stock Exchange during 2006-2010. Results of OLS and 2SLS shows a positive investment-cash flow sensitivity for business group affiliated firms and negative investment cash flow sensitivity for non-group affiliated firms. Additional tests accordingly express that investment-cash flow sensitivity of Pakistani group affiliated firms is significantly lower to non-group affiliated firms.

Keywords: Investment-Cash flow, 2SLS, Financing constraints, Pakistani Business group Firms

JEL Classification: M13, M21.

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