

Accepted Manuscript

Title: GOVERNMENT COST AND FIRM VALUE:
EVIDENCE FROM VIETNAM

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PII: S0275-5319(17)30614-1
DOI: <https://doi.org/10.1016/j.ribaf.2017.10.001>
Reference: RIBAF 883

To appear in: *Research in International Business and Finance*

Received date: 29-8-2017
Accepted date: 9-10-2017

Please cite this article as: Nguyen, Dong Phong, Vo, Xuan Vinh, Anh Tran, Thi Tuan, Thoa Tu, Thi Kim, GOVERNMENT COST AND FIRM VALUE: EVIDENCE FROM VIETNAM. *Research in International Business and Finance* <https://doi.org/10.1016/j.ribaf.2017.10.001>

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GOVERNMENT COST AND FIRM VALUE: EVIDENCE FROM VIETNAM**Dong Phong Nguyen**

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Abstract

This paper investigates the relationship between government cost and firm value at the provincial level in a transitional economy. We shed further light on the question whether local government plays the role of grabbing or helping hand. We use a unique dataset covering government spending and corporate performance characteristics collected from provincial statistical yearbook and Datastream. The results show that there exists a nonlinear U-shaped relationship between local government cost and firm value. Particularly, the threshold value of provincial government spending is about 5%. Furthermore, the U-shaped nonlinear relationship is strongly evidenced in lower quantiles of firm value but not significant at high firm value quantiles, *ceteris paribus*. The article also offers an interesting result concerning the moderating role of state ownership. The effect of government cost on firm value is stronger for the state-owned firms at lower quantiles of firm value.

Keywords: *Government cost, firm value, grabbing hand, helping hand, quadratic regression function, quantile regression.*

JEL Classifications: H20, H50, H70, G38

1. Introduction

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