China Journal of Accounting Research 8 (2015) 91–109

Contents lists available at ScienceDirect

China Journal of Accounting Research

journal homepage: www.elsevier.com/locate/cjar

Monetary policy and dynamic adjustment of corporate investment: A policy transmission channel perspective

Qiang Fu, Xing Liu *

School of Economics and Business Administration, Chongqing University, China

ARTICLE INFO

Article history:
Received 16 May 2014
Accepted 25 March 2015
Available online 15 April 2015

JEL classification:
G31
E52

Keywords:
Monetary policy
Transmission channels
Asymmetric effect
Corporate investment
Dynamic adjustment

ABSTRACT

We investigate monetary policy effects on corporate investment adjustment, using a sample of China's A-share listed firms (2005–2012), under an asymmetic framework and from a monetary policy transmission channel perspective. We find that corporate investment adjustment is faster in expansionary than contractionary monetary policy periods. Monetary policy has a significant effect on adjustment speed through monetary and credit channels. An increase in the growth rate of money supply or credit accelerates adjustment. Both effects are significantly greater during tightening than expansionary periods. The monetary channel has significant asymmetry, whereas the credit channel has none. Leverage moderates the relationship between monetary policy and adjustment, with a greater effect in expansionary periods. This study enriches the corporate investment behavior literature and can help governments develop and optimize macro-control policies.

© 2015 Sun Yat-sen University. Production and hosting by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/4.0/).

1. Introduction

Investment decisions are one of the three main financial decisions made by corporations. Modigliani and Miller (1958) propose that corporate investment decisions are independent of financing decisions under a series of strict assumptions. Subsequently, researchers have relaxed the strict hypothesis of the Modigliani–Miller theorem and developed the theory of investment cash flow sensitivities, based on the perspective of financing constraints caused by asymmetric information, and the theory of free cash flow over-investment, based on the perspective of agency conflicts. These theories argue that the appearance of imperfect markets and agency

* Corresponding author.
E-mail addresses: fuqiang853@163.com (Q. Fu), liuxing@cqu.edu.cn (X. Liu).

http://dx.doi.org/10.1016/j.cjar.2015.03.001
1755-3091/© 2015 Sun Yat-sen University. Production and hosting by Elsevier B.V.
This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/by-nc-nd/4.0/).

conflicts affects the scale and cost of enterprise financing, thereby affecting the decisions and efficiency of corporate investment.

The macroeconomic policy environment affects corporate investment decisions. Management science research has recently focused on overcoming the micro–macro divide in the field, expanding research methods and theoretical innovation and bridging the science-practice gap (Aguinis et al., 2011). Studies on the decision-making behavior of micro-enterprises that consider macro policies are increasingly common (Fan et al., 2014; Jiang and Rao, 2011; Rao et al., 2013). Studies based on the monetary policy perspective mainly focus on the influence of monetary policy on capital structure dynamic adjustment (Cook and Tang, 2010; Luo and Nie, 2012; Ma and Hu, 2012; Su and Zeng, 2009), the policy of cash holdings (Baum et al., 2006, 2008; Zhu and Lu, 2009) and credit financing (Li and Wang, 2011; Rao and Jiang, 2013a,b). Few studies focus on investment decisions.

Monetary policy is an important macro external variable that affects the investment decisions of enterprises. There is a body of literature focusing on the effect of monetary policy on corporate investment. Jing et al. (2012) find that loose monetary policy reduces the financing constraints of private enterprises. However, the financing redundancy resulting from loose monetary policy leads to inefficient investments by private enterprises with poor or general investment opportunities. In contrast, a good financing environment enables a company to take advantage of more investment opportunities, enhancing the efficiency of capital allocation when the company faces better investment opportunities. Xuan (2012) finds that a company can improve its ability to obtain loans and its investment level during tight monetary policies if it follows an ongoing conservative debt financial policy during expansionary monetary policies. Companies that follow a conservative debt financial policy are able to respond to monetary policy shocks and weaken their effects. Liu et al. (2013) find that internal capital markets in business groups buffer the effect of monetary policy on corporate investment.

The studies on monetary policy and corporate investment behavior mainly focus on under- and over-investment caused by credit financing constraints. Few studies explore the influence of monetary policies and transmission channels on the direction and speed of investment dynamic adjustment, especially from an asymmetric perspective. By clarifying these issues, we can reveal monetary policy transmission mechanisms at the micro level and examine their effects. Therefore, this paper uses Richardson's (2006) estimation model of expected investment and Flannery and Rangan's (2006) partial adjustment model to study the influence of monetary policy states and transmission channels on the direction and speed of investment dynamic adjustment.

Our results indicate that corporate investment adjustment is faster during expansionary monetary policy periods than contraction periods. The effect of the money supply on the corporate investment adjustment speed is significantly greater in tight monetary policy periods than in loose periods. This effect is significantly asymmetric. An increase in the growth rate of the credit scale accelerates corporate investment adjustment. This channel does not have a significant asymmetric effect. Leverage has a greater effect on corporate investment in expansionary monetary policy periods.

The contribution of this paper is as follows. First, the estimation model of the dynamic adjustment of corporate investment is designed by integrating the investment efficiency and partial adjustment models. This model provides the basis for studying the effect of monetary policy on the dynamic adjustment of corporate investment. Second, we study the effect of monetary policy transmission channels on corporate investment behavior through detailed microscopic transmission channels of monetary policy. Third, we examine whether monetary policy and its transmission channels have an asymmetric effect on the adjustment of corporate investment. Finally, the literature mainly focuses on the influence of financing constraints on investment, due to the credit channel of monetary policy. We simultaneously pay attention to the effect of the monetary channels of monetary policy on investment opportunities.

This study provides valuable policy implications for monetary authorities and managers. First, policy-makers should consider the effects of different policy instruments. Money supply and credit policy are effective tools for influencing corporate investment adjustment during contractionary monetary policy. Interest rates are an effective tool during expansionary monetary policy. Leverage has a greater effect on corporate financing ability during expansionary monetary policy than contractionary monetary policy. Monetary authorities

Download English Version:

https://daneshyari.com/en/article/1004384

Download Persian Version:

https://daneshyari.com/article/1004384

Daneshyari.com