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## Trust and corporate cash holdings

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### Abstract

We examine the relation between the level of trust in a country and corporate cash holdings. The precautionary savings motive predicts that firms located in countries with less trusting societies will hoard more cash in order to compensate for reduced access to capital markets. The agency hypothesis predicts that shareholders in countries with low levels of societal trust will pressure firms to disgorge cash. The first theory predicts a negative relation between trust and corporate cash holdings while the second theory predicts a positive relation between these two variables. Using data on firms located in 54 countries around the world, we find evidence in favor of the agency-based explanation for the relation between trust and corporate cash holdings. Overall, our results highlight the role played by informal institutions in shaping corporate financial management.

**Keywords:** Societal trust, cash holdings, corporate governance, financial management, marginal value of cash, informal institutions

**Classification Codes:** G32, G34

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