Accepted Manuscript

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PII: S0929-1199(17)30307-3
DOI: https://doi.org/10.1016/j.jcorpfin.2017.12.026
Reference: CORFIN 1334

To appear in: *Journal of Corporate Finance*

Received date: 12 May 2017
Revised date: 11 December 2017
Accepted date: 18 December 2017

Please cite this article as: Narjess Boubakri, Sadok El Ghoul, Omrane Guedhami, William L. Megginson , The market value of government ownership. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Corfin(2017), https://doi.org/10.1016/j.jcorpfin.2017.12.026

The Market Value of Government Ownership

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December 8, 2017

Abstract

Motivated by the recent rise of state capitalism, this paper investigates the effects of government ownership on market valuations across a sample of publicly listed corporations from East Asia. We find strong, robust evidence that government-owned firms exhibit higher market valuation than non-government-owned firms, but the relation is not linear. The benefits of government ownership in terms of value premium extend to closely held firms where the government is a second blockholder. These effects stem from the financing decisions of government-owned firms and from the discount rate of cash flows, and hold prior to and during the recent global financial crisis. Additional analyses suggest that the effect of government ownership on valuation is influenced by financial market development and the quality of government and institutions in place. Collectively, our results imply that government involvement in private firms can be valuable.

JEL Classification Codes: G32, G34
Keywords: Government Control; Financial Crises; Corporate Valuation

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