

Accepted Manuscript

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PII: S0929-1199(17)30543-6
DOI: doi:[10.1016/j.jcorpfin.2018.03.008](https://doi.org/10.1016/j.jcorpfin.2018.03.008)
Reference: CORFIN 1362
To appear in: *Journal of Corporate Finance*
Received date: 15 September 2017
Revised date: 29 December 2017
Accepted date: 26 March 2018

Please cite this article as: Jin Lei, Jiaping Qiu, Chi Wan , Asset tangibility, cash holdings, and financial development. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Corfin(2017), doi:[10.1016/j.jcorpfin.2018.03.008](https://doi.org/10.1016/j.jcorpfin.2018.03.008)

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Asset Tangibility, Cash Holdings, and Financial Development

Jin Lei, Jiaping Qiu, and Chi Wan[†]

Abstract

Rising intangible assets on corporate balance sheets around the world could limit borrowing capacity and consequently hinder growth if firms must preserve cash and forgo investment opportunities. We show that financial development lowers the sensitivity of cash holdings to tangible assets and promotes firm growth. We also find that sectors with a smaller proportion of tangible assets grow faster in countries with more developed financial markets. Our analysis reveals an important asset tangibility channel through which financial development facilitates firm growth.

Keywords: asset tangibility; cash holdings; investments; financial development; economic growth

JEL Classifications: G21, G32, O43

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