The determinants and implications of corporate cash holdings.

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Abstract

We examine the determinants and implications of holdings of cash and marketable securities by publicly traded U.S. firms in the 1971â€“1994 period. In time-series and cross-section tests, we find evidence supportive of a static tradeoff model of cash holdings. In particular, firms with strong growth opportunities and riskier cash flows hold relatively high ratios of cash to total non-cash assets. Firms that have the greatest access to the capital markets, such as large firms and those with high credit ratings, tend to hold lower ratios of cash to total non-cash assets. At the same time, however, we find evidence that firms that do well tend to accumulate more cash than predicted by the static tradeoff model where managers maximize shareholder wealth. There is little evidence that excess cash has a large short-run impact on capital expenditures, acquisition spending, and payouts to shareholders. The main reason that firms experience large changes in excess cash is the occurrence of operating losses.

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