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Cash Savings and Capital Markets^ψ

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Abstract

A growing literature argues that firms plan their cash policies while considering dynamics in the supply of capital. Evidence from the U.S. shows firms making large equity issues when stock prices are high for the purpose of building precautionary cash savings. We confirm this U.S. evidence, and find these effects internationally in countries like the U.S. where external finance is more accessible. In these countries, the relation between precautionary motives and cash savings disappears if the proceeds from net equity issues are removed from cash. In contrast, high precautionary motive firms do not build cash with equity issues in countries where external finance is costlier, suggesting the benefits of holding cash are outweighed by issuance costs. Our findings show that access to equity finance has a first order impact on cash policy.

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