



Study Finds Stock Market Harms Investment Incentives

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By WebCPA Staff

A new study from New York University finds that the stock market often harms investment incentives, especially for fast-growing companies.

The study, "Does the Stock Market Harm Investment Incentives?" was written by professors John Asker, Joan Farre Mensa, and Alexander Ljungqvist, using data from Sagedworks' database of private companies.

The study examines whether stock market-listed firms in the U.S. invest "suboptimally" due to agency costs resulting from separation of ownership and control, while distinguishing between underinvestment due to rational "short-termism" and overinvestment due to "empire building."

"Listed firms invest less and are less responsive to changes in investment opportunities compared to matched unlisted firms, especially in industries in which stock prices are particularly sensitive to current profits," said the study. "Listed firms also tend to smooth their earnings growth and dividends and are reluctant to report negative earnings. These findings are consistent with short-termism and contrary to what one would expect if empire-building were the dominant agency problem in the stock market. Our results suggest that the stock market harms investment incentives, at least for the fast-growing companies in our sample."