

Investment-Based Asset Pricing Model with R&D in Japan *

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Abstract

We investigate the validity of the investment-based asset pricing model in Japan. We incorporate R&D asset into the model, since the value of the firm deeply depends on the R&D activities. We find remarkable improvement of the model performance by introducing R&D asset. This fact casts doubt on the preceding studies on the investment-based asset pricing model which relies only on the physical capital investment. We find that the implied R&D capital adjustment costs are not so large. We also find the superiority of the investment Euler equation model which relies both on the asset price and the economic fundamentals over the valuation model which relies only on the asset price.

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