Investment Shocks and Asset Prices: International Evidence

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Abstract

Using a large sample of stocks collected from over 30 different countries, we study how investment-specific technology shocks affect cross section of stock returns in each country. Consistent with Papanikolaou's (2011) model prediction and empirical evidence based on the U.S. data, we find that investment shocks carry negative premia in most countries. We also show that the negative price of investment risk is larger in countries with more developed financial markets, higher capital investments, and greater growth opportunities. Our results suggest that investment shocks are an important risk factor in the international equity markets.

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