

# Uncertainty and Investment-Cash Flow Sensitivity <sup>\*</sup>

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April, 2018

**ABSTRACT.** We study investment-cash flow sensitivity in terms of uncertainty faced by firms. Surprisingly, we find that as the uncertainty increases, investment-cash flow sensitivity significantly declines. This finding is robust to alternative uncertainty measures, and also to different forms of firm investment; that is, capital investment and R&D spending. Our finding can help settle the debate investment-cash flow sensitivity cannot be a good measure of financial constraints; rather it could be a measure of firm's business uncertainty.

*JEL classification:* G01, G31, G32.

*Keywords:* economic uncertainty; policy uncertainty; fixed investment; R&D investment; investment-cash flow sensitivity; uncertainty shock.

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<sup>\*</sup> The authors especially thank Isao Ishida, Masahiko Shibamoto, and Koji Takahashi for valuable comments and discussions. The authors are grateful for grants-in-aid from the Ministry of Education and Science, Japan.

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