ABSTRACT

The main purposes of this paper are: i) to review finance literature used simultaneous equations method, ii) to show that both 2SLS and 3SLS are special cases of GMM estimator in estimating simultaneous equations and iii) to investigate the interrelationship among investment, financing and dividend decisions. We review studies that apply the simultaneous equation estimation on capital structure, corporate investment, payout decisions, ownership structure, corporate governance, stock return, firm performance and/or other corporate issues. Detail description about concept of 2SLS, 3SLS, and GMM estimation is introduced. We also investigate the interrelationship among investment, financing and dividend decisions using 2SLS, 3SLS, and GMM methods based on the U.S. listed firm annual data between 1965 and 2012. Our results are consistent with Lambrecht and Myers’s (2012) theory that dividend and investment decisions are jointly determined. In addition, these three corporate decisions are co-determined and the interaction among them should be taken into account in a simultaneous equation framework.

Keywords: 2SLS; 3SLS; GMM; Investment Decision; Financing Decision; Dividend Decision

REFERENCES


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