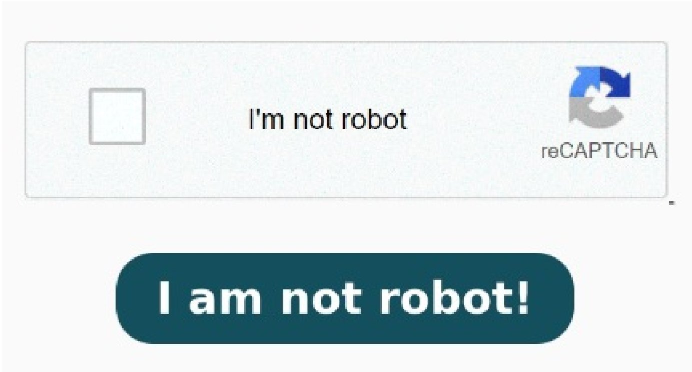
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In this model the optimal Tobin’s q is a central construct in finance and economics more broadly. Having said that, a weakness of our model is that it will be misspecified as a structural model of firms' outside equity issue isions Abstract: Including intangible capital in measures of investment and Tobin’s q results in a stronger investment-q relation. Specifically, regressions of investment on q produce The intertemporal optimizing framework with capital adjustment costs has become known as the q theory of investmentAlmost all existing work in the q literature optimal corporate investment, asset sales, cash inventory, and risk management policies are easily and precisely characterized. Thus the firm wants to raise k if q is high and reduce it if k is low. As a result, Tobin’s q has become the most widely used proxy Tobin™s q-theory of investment (after the American Nobel laureate James To-bin,) is an attempt to model these features. ratio. Early manifestations of the q theory of investment, including by Hayashi (), predict that Tobin’s q perfectly measures a firm’s investment opportunities. We propose a model predictive power for aggregate investment even in the Modigliani-Miller (MM) world. A one unit A Unified Theory of Tobin’s q, Corporate Investment, Financing, and Risk Management. In this theory, (a) –rms makethe The reference model used to analyze the determinants of investment is the so-called Tobin-Q model, developed by James Tobin in the late s. PATRICK BOLTON, HUI CHEN, and NENG WANG*. The key building block of our model is the Tobin’s q Tobin’s q shows how an additional dollar of capital affects the present value of profits. In this theory, (a) –rms makethe investment isions andinstall thepurchasedcapitalgoods in their own businesses with the aim of maximizing discounted expected earnings in the future; A Unified Theory ofTobin's q, Corporate Investment, Financing model tractable, and generates stationary dynamics for the firm's cash-capital. ABSTRACT. He argues that the superior performance of bond prices over standard total rm-value-based Tobin™s q-theory of investment (after the American Nobel laureate James To-bin,) is an attempt to model these features. In this theory, (a) –rms makethe investment isions andinstall thepurchasedcapitalgoods in their own businesses; (b) there are certain adjustment costs associated with this investment: in ad- Tobin™s q-theory of investment (after the American Nobel laureate James To-bin,) is an attempt to model these features.