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Tobin's Q and Investment



Tobin's q is the ratio between a physical asset's market value and its replacement value. Tobin's Q and investment move well together because according to the economic theory of investment, Q represents the ratio of the market value of a firm's existing shares to the replacement cost of firms physical assets. This is the replacement cost of shared capital. As we know, firms need money for investment. I think in this case by time 2010 comes around we see that $q > 1$ which means firms find it profitable to acquire additional capital because the value of capital exceeds the cost

of acquiring it which also means investment increases. We could also assume during this period when stock markets are high, firms are willing to sell equity to finance investment than when the stock market is low. Because of this in the current economic climate with coronavirus it would seem that Q would be greater than one for many quarters to come if the economy continues to slide into this recession. Because coronavirus represents a time when companies are going to be cash rich but still it causes a recession it would seem that investment would skyrocket over the foreseeable future. However by the same token because a lot of these companies are not getting any revenue such as airplane companies or cruise ship liners then you can also see their investment falling significantly because they are having no revenue and therefore it costs a lot to get a new capital. Therefore it is my opinion that Tobin's Q Will trend upwards however some companies will find a significant decrease in that same time.