

Macro Roundup Article

Headline: [Corporate Discount Rates](#)

Article Link: <https://www.nber.org/papers/w31329>

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Publication	National Bureau of Economic Research
Publication Date	June 13, 2023

Tweet: .@NielsGormsen shows that the average firm reduces its discount rate by only .3% in response to a 1% decline in perceived cost of capital. The implication is a lower level of capital spending relative to what the decline in cost of capital would imply.

Summary: We document that changes in the perceived cost of capital only modestly affect discount rates, in contrast to the stylized view. Using within-firm variation, we show that, on average, a 1 percentage point increase in the perceived cost of capital leads to a 0.3 percentage point increase in the discount rate. We show that discount rate wedges are associated with investment fluctuations at the firm level. A 1 percentage point increase in the wedge lowers the investment rate by 0.9 points. Many firms rarely change discount rates, so the relation becomes stronger over longer horizons. However, even at the 10-year horizon, 40 percent of firms maintain unchanged discount rates and, even if they change, adjust less than one-to-one with the perceived cost of capital. These results suggest that discount rates have “a life of their own,” beyond the perceived cost of capital. The average US firm in our sample has increased its discount rate wedge by 2.5 percentage points between 2002 and 2021.

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