Problem Set1

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My Research Interests

I'm very interested in the area of corporate finance, especially liquidity management. I want to investigate how companies trade off between non-operational cash and credit lines. There are very limited literature about this problem in the international setting. Therefore, I think this question is very worthwhile to do some researches on.

Existing Literature

Sufi (2009) conducts the first empirical research on the role of credit lines in the liquidity management. This paper contradicts the theoretical belief that cash and credit lines can be perfect substitutes and states that firms only rely on credit lines, when they have high level of cash. Based on the research of Sufi (2009), Lins, Servaes, and Tufano (2010) examine whether firm outside the US make extensive use of credit lines. Acharya, Almeida, and Campello (2013) explore other factors that influence the company decision about credit lines.

Equation

The formula to calculate R-squared is:

$$R^2 = 1 - \frac{\sum (y_i - \hat{y}_i)^2}{\sum (y_i - \bar{y})^2} \tag{1}$$

References

Acharya, V. V., Almeida, H., & Campello, M. (2013). Aggregate risk and the choice between cash and lines of credit. The Journal of Finance, 68(5), 2059-2116.

Lins, K. V., Servaes, H., & Tufano, P. (2010). What drives corporate liquidity? An international survey of cash holdings and lines of credit. Journal of financial economics, 98(1), 160-176.

Sufi, A. (2009). Bank lines of credit in corporate finance: An empirical analysis. The Review of Financial Studies, 22(3), 1057-1088.