

ESSAYS IN CORPORATE FINANCE

by

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The first essay studies the impact of labor mobility risk on corporate dividend policy. I argue that a stringent labor mobility regime reduces the risk of losing human capital and trade secrets to rivals, thus reducing uncertainty and making dividends payment more feasible. Consistently, I find that stronger enforceability of Non-compete Agreements leads to a higher propensity to pay dividends and dividend amounts. Additional analyses indicate that the increase in dividend is concentrated in firms that are more concerned with human capital and trade secrets protection, i.e. firms with a highly-skilled workforce, firms whose profitability depends on the secrecy of their innovation process and firms that face cash-rich rivals. In a channel analysis, I document that stronger NCA enforceability reduces firms' earnings uncertainty, which in turn leads to the increase in dividends.

In the second essay, we examine the effect of rival's cash holdings on corporate innovation. To establish causality, we employ an instrumental variable approach and use the American Jobs Creation Act as an exogenous shock to rivals' cash holdings. We find that when rivals hoard more cash, firms apply for significantly more patents, but generate fewer citations. Furthermore, the economic value of patents increases, suggesting that they help firms gain crucial advantages in the product market. Exploring the mechanisms, we find that the positive effect of Rivals' Cash on the number of patent applications is much stronger when the labor mobility regime is less stringent. Finally, using tariff

reductions as an exogenous variation to competition, we find that competition amplifies the positive effect of Rivals' Cash on the number of patents but alleviates the negative effect on the number of citations per patent. Overall, the results suggest that financial policies of rivals play an important strategic role in shaping corporate innovation.

The third essay examines the impact of product market competition on firms' composition of liquid asset. We use fluidity as a proxy for product market competition and also exploit an exogenous shock to competition following a reduction in industry import tariff rates. When the threat of competition increases, we find firms increase their short-term investments, not pure cash. Further, we explore possible explanations for this behavior. We rule out a valuation explanation as we documented that the market's valuation of short-term investments is lower than that of pure cash when competition increases. Instead, we show evidence of the mimicking behavior, namely firms' liquid asset composition is influenced by that of rivals. When competition increases, we find firms do not change their mimicking of cash but they increase their mimicking of short-term investments.

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