

Date of the event:

On Thursday, 17th November, 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before November 14th, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Martine Zenner
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following
lunch seminar:

***The Impact of Managerial Control
over Cash on Credit Risk and
Financial Policy***

*By Mr. Marc Arnold
University of Zürich*

**Thursday, 17th November 2011
From 01:00 PM to 2:00 PM**

The Impact of Managerial Control over Cash on Credit Risk and Financial Policy

The Luxembourg School of Finance

Is pleased to invite you to the

LSF Seminar

This article analyzes the impact of managerial control over cash holdings on credit risk, and corporate financial policy. I identify two channels which drive the total effect of cash on credit risk. First, the fact that managers can use cash to service debt when equityholders are unwilling to inject funds into the firm reduces credit risk. Second, as equity holders anticipate that ceasing to inject funds does not lead to immediate default, they optimally stop contributing funds earlier in firms with larger cash holdings. The second channel increases credit risk. Because managers' motive for excess cash to reduce credit risk depends on the relative strength of the two opposing channels, one can link empirically observed excess cash levels to firm and industry characteristics. The paper also talks to the impact of the market for corporate control, to agency costs of cash, and to the under-leverage puzzle.