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Stock Market Valuation of R&D Expenditures in R&D-intensive Economy: Evidence from Finland

ABSTRACT

This paper investigates the stock market response to firms' research and development (R&D) expenditures in Finland, where a substantial increase in the economy-wide investments in R&D activities occurred during the 1990's. Consequently, the use of Finnish data provides an interesting environment to test the hypothesis that the stock market values R&D expenditures as an asset rather than a cost (see, for instance, Lev 1999). The results reveal a significantly positive market response to R&D expenditures even after controlling for the valuation impact of negative earnings, industry differences and annual variation in returns. The results also indicate that the positive market response to the R&D expenditures becomes stronger as the economy-wide investments in R&D activities increase.

JEL classification: G15, M4

Keywords: *R&D expenditures, stock market*

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