

FOUR ESSAYS IN EMPIRICAL CORPORATE FINANCE AND FINANCIAL MARKETS:
SOCIAL CAPITAL, CORPORATE RISK-TAKING, EXTERNAL FINANCING, AND
FINANCIAL MARKET DEVELOPMENT

DAVID JAVAKHADZE

DR. STEPHEN P. FERRIS, Dissertation Supervisor

ABSTRACT

This dissertation consists of four essays examining a range of topics in empirical corporate finance and financial market. The first essay tests the impact of CEO social capital on corporate risk-taking. Using a large panel of companies from 41 countries, the paper documents a significant positive relationship between CEO social capital and corporate risk-taking. Findings show that this increase in risk-taking caused by social capital is value-enhancing.

The second essay examines the effects of managerial social capital on the firm's implied cost of equity capital and demand for liquidity. The paper finds that social capital reduces the implied cost of capital as well as the marginal propensity to save cash. The association between social capital and the cost of equity is stronger in underdeveloped financial markets. Marginal effect of social capital in reducing the cost of equity is stronger for constrained firms.

The third essay examines the impact of managerial social capital on investment and external finance sensitivities to cash flow and Q. The paper documents that social capital reduces a firm's dependence on internally generated cash. Social capital positively affects external finance-Q and negatively – external finance-cash flow sensitivities. These effects of social capital are stronger in markets characterized by weak legal protection of investors.

Finally, the fourth essay tests the relation between social capital and financial development. The study provides evidence that social capital positively affects financial development. The results also suggest that casual, non-professional ties are the most efficient forms of social capital with the strongest implications for financial markets.