

UNCERTAINTY AND TANGIBLE ASSETS IN FIRM INVESTMENT:  
INTER-INDUSTRY EVIDENCE FROM APEC COUNTRIES

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**ABSTRACT**

This dissertation investigates how the role of cash flow changes with the uncertainty coming from oil price fluctuations, using the annual data obtained from COMPUSTAT global during the period of 1991 to 2004. I construct three measures of oil price volatility and one measure of relative oil price change.

The main empirical findings are that the role of cash flow diminishes with higher oil price volatility for both manufacturing and service industries. Cash flow sensitivity declines more with volatility in more energy intensive industries. Firm investments in energy intensive manufacturing are hurt the most by oil price volatility, and firms in the service industry are hurt less than firms in manufacturing. When relative oil prices are used for the measure of oil price changes, most APEC countries except the U.S. show the role of cash flow increasing during times of higher oil prices. Oil price volatility affects firm investments in the U.S. and Canadian manufacturing negatively and significantly. Manufacturing firms in low income countries and manufacturing-growing countries are less hurt by oil price volatility when they have more cash flow. In the analysis of the effect of tangible assets on firm-level investment, I find that the role of cash flow declines or does little in importance with tangible assets in manufacturing and service industries. The last finding is that sales show very little impact on firm-level investment in the service industry unlike in manufacturing.