

UNDERINVESTMENT PROBLEM: ROMANIAN EVIDENCE

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ABSTRACT: This paper aims to provide Romanian firm-level evidence concerning the investment decisions - financial leverage - growth opportunities relation. Using traditional panel data techniques on a sample of 67 companies listed at Bucharest Stock Exchange, we found that increasing debt and firm size have a negative impact on investment decisions, while the sales growth is a catalyst for further investments. Our results confirm agency theories of corporate leverage and could offer guidance for portfolio investors, which should target small(er) listed companies which are growing and have low(er) levels of debt.

Key words: Investment Rate, Financial Leverage, Growth Opportunities, Endogeneity

JEL Codes: G31, G32