PURDUE UNIVERSITY | Krannert School of Management

Finance Seminar

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Leeds School of Business
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Excess Capacity, Marginal q and Corporate Investment

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KRAN G010

Bio

Dr. David L. Ikenberry is an accomplished academic leader. He holds a B.S. degree from the Pennsylvania State University (1983), an M.M. from the Kellogg Graduate School of Management, Northwestern University (1985), and a Ph.D. from the University of Illinois (1990). Dr. Ikenberry started as an Assistant Professor at the Jones Graduate School of Management at Rice University. In 2002, he returned to the University of Illinois at Urbana-Champaign, serving as Chair of the Finance Department. In 2006, he was appointed Associate Dean of Executive Programs. From 2011 to 2016, Ikenberry served as Dean of the Leeds School of Business at the University of Colorado Boulder. The School engaged in comprehensive, strategic change during his time as Dean. Some of the School's accomplishments include an overhaul of the undergraduate curriculum, the launching of an innovative, large-scale business minor, and the formation of four new one-year MS degree programs. Faculty research rankings rose dramatically, as did alumni engagement, philanthropy and student services. Student quality and success rose dramatically during his administration and the diversity of the undergraduate student body nearly doubled. Today, he serves as a full professor in the School. As a researcher, Ikenberry's interests cover empirical topics in both investment and corporate finance; he is published in all of the top journals in his profession. He was an early pioneer among researchers examining long-horizon stock returns, particularly returns subsequent to major corporate news events. Much of his work relates to behavioral finance and the extent to which news is incorporated into market prices. His most noted work has studied open market stock repurchase programs. He is often looked to as an expert in this area, as well as the larger context of dividends and corporate payout policy. His current work empirically examines why corporate investment has eroded so severely over the last 40 years despite Tobin's *q*, a measure of market expectations, rising. Dave is also an accomplished teacher. While at Rice, he was awarded the business school's most valued award for teaching in 1996 and 1999. In 1997 and again in 2002, *BusinessWeek* magazine named him among the best instructors in the U.S. At Illinois, he was awarded Teacher of the Year for the Executive MBA Program in spring 2009. He frequently speaks to academic, government, corporate officers and the broader investment communities. His research is often mentioned in the popular press and has appeared on numerous radio and television programs. In addition to advising corporations and investment firms on financial matters, he has served on the Boards public and non-for-profit corporations. He lives in Boulder, Colorado and is married to Nancy Ikenberry (from Palatine, Illinois); they have two grown children.

Abstract

When testing models of corporate investment, researchers often assume that average q is a good proxy for marginal q. However, when firms face the potential for excess capacity, theory predicts that marginal q will be less than average q due to the possibility that underutilizing new capital can reduce the marginal benefit of investing. We address this issue by augmenting the q model with a proxy for capacity utilization. Our approach not only substantially improves the explanatory power of investment regressions, but also provides an explanation for the substantial decrease in the rate of corporate investment over time despite a material increase in average q. These results are robust across a variety of dimensions and also hold across all G7 countries.