



Department SEMINARS

The Impact of Fixed Financial Returns on Investment Behavior

BEATRICE BOULU

University of Orléans

THURSDAY, 18 APRIL 2024
12:15 PM

Seminar Room Bruguier Pacini, DEM



A B S T R A C T

Béatrice Boulu-Reshef, Graciela Kuechle and Bin Wang

This paper studies, both theoretically and through an experimental approach, the two fundamental investment environments available to firms: those involving fixed and variable returns. In our context, a fixed return denotes a predetermined return that is known to both the investor and the firm in advance, whereas a variable return pertains to a return determined by the firm after the economic prospects have materialized, thus, in an ex-post manner. The paper allows us to estimate the cost of potential betrayal in investor-entrepreneur investment relationships and documents how the obligation of a return (or the lack thereof) impacts the investor's investment decision and the entrepreneur's resource allocation decision. Our theoretical work allows us to document that having a fixed return leads to both a higher transfer from the investor and a higher engage ratio from the entrepreneur into the project. As predicted by theory, the experimental results show that the transfer and engage ratio and amount are higher in the fixed-return treatment compared to the variable-return treatment. While the results of the transfer behavior may be partially explained by the higher expected return and the lower variance induced by the fixed return, the empirically-documented behavior on the engage behavior is not fully explained by rational expectations. We find that what is financially engaged in the project is moderated by the received amount, which means that the higher the amount received by the firm, the higher the amount engaged in the project. We also find that the engage ratio is less sensitive to the change of received amount in the fixed-return treatment. We further document the impact of gender, as women have a higher transfer ratio and engage ratio in both treatments. Keywords Investment decisions, Return to investment, Behavioral finance, Entrepreneurial financing.

For information: caterina.giannetti@unipi.it

