

EFFECTS OF FINANCIAL LEVERAGE ON THE  
INVESTMENT DECISION: PAKISTAN CEMENT INDUSTRY



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## **Abstract**

The purpose of this paper is to study the relation between financial leverage and investment opportunities of Pakistan Cement Industry, which operate in a massively different location and environment than other industrial sectors of Pakistan. Pool regression model analysis, fixed effect model analysis and random model analysis are employed while using different variables, investment as dependent and liquidity, cash flow, return on assets, sales growth, firm size, Tobin Q, Leverage as independent variables. Firm's data for a period of 2001-2013 is collected from financial analysis data of Karachi Stock Exchange and State bank of Pakistan.

The Leverage of Pakistan cement industry is significantly positively related to the investment opportunities, representing that cement sector firms with higher investment opportunities and larger firm are inclined to borrow more. It unlocks the accesses for further research on the determining factor of the positive relation between financial leverage and investment opportunities of Cement sector. For future research, several unique features of Pakistani market could be explored by including other sector (multiple sectors including financial and non-financial), Can bifurcate the firms according to size, growth opportunities available to the firms (Tobin Q) and could incorporate asymmetry information theory, signal theory and etc. in their respective study for conducting future research. This study extends the existing literature on the relation between financial leverage and investment opportunities of firms.

Keywords Liquidity, Cash flow, Tobin Q, Firm size, Leverage, Return on Assets Gearing, Investments, Debts, Equity capital

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