

## **Corporate Cash Holdings and the Effect of Chaebol Affiliated on the Implied Cost of Equity Capital: Evidence from Korea**

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**Abstract :** This paper examines corporate cash holdings and their effect on the cost of equity capital. In addition, this study examines the potentially different effects when the firm belongs to chaebol and non-chaebol groups. Chaebol is a South Korean form of business conglomerate. Chaebol is typically global multinationals and owns numerous international enterprises, controlled by a chairman with power over all the operations. The overall empirical result suggests that higher cash holdings are a risk increasing factor which holds for the chaebol group of firms. This result is valid in a battery of robustness tests and 2SLS regressions. In Korea, higher cash holdings represent a risk premium factor that is closely related to the overinvestment and agency problems between managers and shareholders.

**Keywords :** cash holdings, implied cost of equity capital, chaebol, agency problem

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