

The Effect of the Investment Function on the Cost of Adjustment in the Industrial Sector on Stock Returns

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Abstract

In this study, we seek to answer the question of what effect investment has on stock returns, given the volatile market and the impact of a variety of crises, given the adjustment costs. For this purpose, using the rotary model and changing the Markov switching diet, the present topic for the period of 1370 to 1397 in the Iranian economy is examined. The results of Marcov's estimation of the period of recession and prosperity show; Positive oil shocks during the boom (second regime) have a positive effect on stock returns. Also, financial crises, sanctions and investment, despite the cost of adjusting, have a negative effect on stock returns in both periods of recession and prosperity. According to the model estimates, the economic downturn in the recession for the period under review in the present study is 18 periods of recession versus 9 periods of boom, which in turn increases the investment risk with the current situation. Therefore, it is suggested that in the event of oil shocks, financial crises and increased investment adjustment costs, the government and the central bank should preferably implement their policy in times of recession, because in these periods the economy has potential. And there is a lot of production capacity, and if the policy in question is implemented during this period, this policy will pave the way for the economy to emerge from the recession.

Keywords: investment; adjustment costs; industry; stock returns; Markov switching regime change model.

JEL Classification: C24, E52, G12, G32, G19.

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