ABSTRACT

In this study, I have examined whether the share price’s reaction to a firm's capital expenditure decision depends critically on the industry classification. Increases (decreases) in capital expenditures could positively (negatively) affect the stock prices of firms with valuable investment opportunities. Contrarily, increases (decreases) in capital spending could negatively (positively) affect the share prices of firms without such opportunities. Empirical results are generally consistent with later prediction – negative relationship between the variables. Overall, the empirical evidence suggests that it is the quality of the firm's investment opportunity rather than its industry classification, which determines the share price reaction to its capital expenditure decisions.