

A study on the effects of subsidies on market value of listed companies in Tehran Stock Exchange

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ABSTRACT

According to the 4th Iran's development plan, there must an increase in energy prices and removal of subsidies paid to energy sector. Therefore, it is necessary to study the effects of removing subsidies paid on energy on different industries and the subsequent impact on economic growth. This study aims to investigate the effects of subsidies on the market value of listed companies in Tehran Stock Exchange in automotive and cement industries. The study selects two firms, Fars & Khuzestan Cement Co. and Iran Khodro using Auto Regressive Distributed Lags (ARDL) over the period 2008-2013. The results of study have indicated that there was a meaningful relationship between removal of subsidies and market value of the firms.

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1. Introduction

Subsidies in Iranian community are indirect or direct payments as a financial assistance, economic points or giving special excellences to private agencies, households as well as governmental units to reach desired goals (Brooks, 2003). According to HooriJafari and FarahmandPur (2008), the subsidy includes all kinds of transitive payments to provide some supports for the low-income and vulnerable communities and to contribute the income distribution for households or industries given by the state treasury. Government subsidy is described as the difference between the finished and the adjusted prices of products or services devoted by the government in support of the target group proportion to their income, the target group may reach desirable buying power and suitable quality of life. Normally, the amount of required subsidy is specified as subtraction of the finished price of products or services and the level of public purchasing ability (Mirzamohammadi et al., 2012). There are several studies on the effects of subsidy removal on economic circumstances.

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