



Executive Stock Options, Investment Decisions, and Agency Costs **Jin-Ray Lu^{1,*}**

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ABSTRACT

If corporate executives are responsible for investment decision-making, their executive stock options (ESOs) payoffs shall be contingent on decision-making results. This study proposes a new valuation model for ESOs correlated with investment and financial decisions. Our findings suggest that their investment choices and financial policies determine corporate executives' payoffs generated from their holdings of ESO contracts. In particular, if a firm's executives are more responsible for their investment behavior, they receive more ESO payouts. Our mode reinforces corporate executives on behalf of shareholders' interests through ESO's payoffs directly connected with their attitude of responsibility for investment policies.

Keywords: agency cost, credit risk, executive stock options, investment risk

JEL classification codes: G11, G13, G30, G35

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