We provide evidence that executives with more short-term incentives engage in myopic behavior by reducing real investment. We document this effect by exploiting a unique event in 2005, in which more than 700 firms accelerated the vesting periods on executive stock options to avoid an accounting expense under FAS 123-R. To identify the effect of this shortening of incentive horizon, we exploit exogenous variation in the timing of FAS 123-R—firms with fiscal year ending June or later had to Comply in 2005, while all other firms could postpone compliance until 2006.

Our instrumental variables estimates suggest that a 10% increase in the probability of accelerating options leads firms to reduce industry-adjusted investment rates by a substantial 0.023 in 2005 and a further 0.014 in 2006. This reduction in investment is concentrated among industries in which investment is easier to adjust on short notice and among firms with poor governance.