

This research is related to the examination of the relationship of cash flow and level of investment under high and low investment opportunities of 167 Pakistani non-financial manufacturing firms listed in the Karachi Stock Exchange (KSE) during the period 2004-2013. It includes two definite objectives 1) to investigate the relationship between investment and cash flow under high investment opportunities manufacturing firms listed on KSE for the period 2004 to 2013. 2) to investigate the relationship between investment and cash flow under low investment opportunities manufacturing firms listed on KSE for the period 2004 to 2013. Tobin's Q is employed to capture the investment opportunities and sales are taken as control variable.

A panel data regression model is used to investigate the relationship of cash flow, Tobin's Q and sales on the level of investment. In case of high investment opportunities firms, the relationship of investment and cash flow is positive and significant while under low investment opportunities firms, this relationship is also positive but insignificant.

These results indicate that the high opportunities firms rely mostly on internally generated cash flow where as the low investment opportunities firms prefer to distribute its earning as dividend.