Financial markets and the allocation of capital: the role of productivity

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The question(s) and the and answer(s)

- ✓ ***Efficiency of credit allocation explains the disappointing evolution of productivity? How to gauge efficient capital allocation?***

- ✓ ***Very relevant question that has received a lot of attention, especially since the upturn (hysteresis effects)***

- ✓ ***Bring the model to the data (Compnet for Germany, France and Italy)***

- ✓ ***The authors find evidence of more efficient credit allocation in Germany and France than in Italy. And that credit is allocated more efficiently to larger firms.***

The model and novelties

- ✓ *Differs from Olley-Pakes (1996), Hiesch-Klenow (2009) or Bartelsman et al. (2013)… Wurgler (2000): higher elasticity of investment growth to value added growth as a sign of higher allocative efficiency.*

- ✓ *Here, focus on productivity: Sign and magnitude of credit elasticity to contemporaneous productivity (and real value added) as an indication of financial frictions.*

- ✓ *2 periods deterministic model with a Cobb-Douglas production function and (known) productivity shocks. Tooling cost to transform capital in the second period.*

- ✓ *When credit constrains, positive productivity shocks:*
  - ✓ *Opportunity effect:* *Increases (decreases) the demand for finance today (tomorrow).*
  - ✓ *Liquidity effect:* *increased cash flow enables more investment.*

- ✓ *Contemporaneous Net unknown. If positive, the larger the more constrains. If negative, the smaller the less constrains. Forward always positive.*

Suggestions for further estimations

- ✓ ***Why not estimating the reduced form directly as the model is analytically solved (using calibrations of some parameters from the literature)***

- ✓ ***Perfect foresight a benchmark but why not estimating directly the contemporaneous and expected impact in the same equation? (this would require isolating expected components in productivity).***

- ✓ ***Credit supply (and constrains) on the side of financial intermediaries differ across jurisdictions but also move across time. Since the time period cover 12 to 18 years, why not splitting the sample?***

- ✓ ***Besides credit, what about actual investment ?***