

Second Report of the Proposal:

Dispersion in Financing Costs and Development

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Our database comprises annual data of more than 3 million firms from 246 sectors between 2006 and 2016, totaling 11.8 million firm-year observations. Our sample period evolves two years of solid economic growth (2006 and 2007), the burst and aftermath of the global financial crisis in 2008-2009, a strong economic recovery from 2010 to 2013, and the larger recession of the Brazilian economy in recent history (2014-2016), with a huge impact on the labor market. I spent the last summer working in this dataset in Brazil.

We find large dispersion in financing costs among all formal Brazilian firms. In our decomposition exercises, we show that about 50% of the variation in interest loan spreads are explained by loan level characteristics, such as maturity, loan type, and currency denomination; about 25% of this dispersion is explained by firm level characteristics, such as location, sector, age, size, credit risk, and type.

We then develop a general equilibrium model of firm dynamics (endogenous entry, exit and growth) to understand how dispersion in financing costs affects aggregate outcomes such as investment, productivity and misallocation. We compare our theoretical framework with a tradition quantity constraint, which has been the workhorse in the macro development literature. We show that our model performs better than a traditional model with quantity constraints only to explain firm dynamics.

Our plan is to improve the internal estimation of the model to match some key micro moments of the data and investigate the robustness of our model simulations to a better fit of the model. The plan is to finish this until the end of 2019 and then submit the paper by the end of the Lent Term.