DOCTORAL PROGRAMME

ESSAYS ON FINANCIAL INTERMEDIATION AND CORPORATE FINANCE

By

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Abstract

This thesis consists of three essays exploring the links between financial intermediation and corporate finance.

Government Owned Banks (GOBs) have other explicit or implicit objectives apart from profit maximization. In the first essay, we study whether this affects the liquidation risk of firms borrowing from GOBs. Using the natural experiment of securitization reform in India that increased firms' liquidation risk, we find that the firms borrowing exclusively from GOBs did less reduction in secured debt usage compared to other firms. In the cross-section, the effect is more substantial in the subsample of firms that are more likely to face financial distress. These results suggest that borrowing from GOBs have less liquidation risk.

In the second essay, we study the evolution of firms' leverage around systemic banking crises. Using a sample of 40 recent systemic banking crises, we find that firms' leverage is procyclical around banking crises, similar to the evolution of aggregate credit around financial crises documented in the literature. In the cross-section, firms' leverage is more procyclical in banking crises in which aggregate bank credit is also more procyclical. Furthermore, firms' leverage is more procyclical for banking crises in countries with less developed financial markets proxied by emerging market economies, bank based financial system, relatively small size of public debt markets, and in those countries where firms rely more on short term debt.

In the third essay, we study the effect of financial crises on firms' cash holdings with a sample of 40 recent systemic banking crises. Consistent with the hypothesis that financial crises increase the likelihood of future crises and increase precautionary liquidity demand,

we find that post-crisis firms increase their cash holdings. Furthermore, the increase in cash holdings is concentrated in more severe banking crises, proxied by output loss, fiscal costs of bailouts, peak NPLs and reduction in aggregate bank credit in the crisis, and crises in countries with banks dominated financial system.