

Industrial Structure and Corporate Finance*

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March 2007

Abstract

Instead of focusing on a single firm as the unit of analysis in corporate finance, we look to the relationships *between* firms in determining corporate financial decisions. Interlocking balance sheets through accounts receivable and payable reflect the incentive structure in complex production chains. We formulate a theoretical framework, and document the cross-country empirical evidence. Firms that borrow more from other firms are also those that lend more to other firms. The elasticity of receivables with respect to payables reflect the length of complex production chains.

*We are grateful to Franklin Allen, Ed Altman, Philip Bond, Xavier Gabaix, Mariasunta Gianetti, Anil Kashyap, Stephen Morris and Jose Scheinkman for comments and encouragement. We thank participants at the KIF anniversary conference and the Five Star conference at NYU in 2006 for their comments.