1 Introduction

The conventional approach to corporate finance based on the principal-agent model takes the single firm as its unit of analysis. We take a different tack in this paper. We will address the issue of how corporate financial decisions are arrived at as the result of the *interaction* among firms, and thus how corporate financial decisions and industrial structure are determined jointly.

When considering the composition of corporate balance sheets, our focus on the interactions among firms would be more than justified. In cross-country empirical studies of corporate balance sheets, the assets and liabilities that reflect the interactions among firms (as suppliers and customers) constitute a very significant portion of a company's balance sheet. Rajan and Zingales (1995, p. 1428) report that accounts receivable (money owed to the firm by others) constitute 18% of total assets for U.S. firms, and the figures are higher for Germany (27%), France (29%), Japan (23%), and the United Kingdom (22%).

In this paper, we argue for a corporate finance rationale for the special status of accounts receivable as an asset class. The literature on trade credit has sought to explain the large size of accounts receivable on company balance sheets by pointing to the comparative advantage that a supplier firm has in acting as a creditor to the downstream firm (as compared to a bank or other third party creditors). Biais and Gollier (1997), Cuñat (2006) and Burkart and Ellingsen (2004) give an overview of the rationales put forward to date. In addition, a large empirical literature on trade credit has sought to disentangle the competing hypotheses by examining the empirical determinants of a company's accounts receivable based on the company's individual characteristics (see Petersen and Rajan (1997), Fisman and Love (2003), Giannetti, Burkart and Ellingsen (2006) and the references therein).