



Figure 1: Scatter chart for manufacturing firms in Japan in 2003

However, many questions remain. By taking a bilateral contracting perspective between creditor and debtor, we may slip into the presumption that firms fall into two groups - creditor firms and debtor firms. However, the evidence paints a very different picture. We will examine the empirical evidence more systematically in the main body of our paper, but we highlight some salient facts here so as to motivate our analysis.

Begin with figure 1, which shows a scatter chart of the log of accounts receivable against log of annual sales for manufacturing firms in Japan. The data are from the Compustat Global database of firms (on which more later) drawing on the financial accounts of 2003. There are 1198 firms in the sample.

The slope<sup>1</sup> of the OLS regression is very close to 1, suggesting that the

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<sup>1</sup>The slope is 0.9996 with standard error 0.009.