

Hypothesis. ε is low for production chains with high vertical integration.

The elasticity ε is the coefficient on $\log(\text{payables})$ in the Cobb-Douglas representation (21). Thus, our hypothesis is that the cross-section elasticity of receivables with respect to payables in the Cobb-Douglas representation is low for production chains with greater vertical integration.

We pursue this theme in a cross-country study. Our dataset is the Compustat Global database of firms, drawing on the accounting numbers for 2003. The Compustat Global database has good coverage for traded firms in the United States and Japan, but is less comprehensive for other countries. The results reported below should be viewed with this in mind.

Drawing on the Cobb-Douglas representation of receivables (21), we ran cross-section OLS regressions for manufacturing firms (NAICS codes 31 - 33) of the form:

$$\log(\text{receivables}) = \alpha + \beta \log(\text{payables}) + \gamma \log(\text{sales}) \quad (24)$$

for 9 countries. They include the seven countries examined by Rajan and Zingales in their 1995 paper (Canada, France, Germany, Italy, Japan, U.K. and U.S.), plus Korea and Taiwan. The reasons for the choice of Korea and Taiwan will become clear shortly. Receivables and payable are those for trade debtors and creditors (data items 64 and 97, respectively). We removed inactive firms from the sample, as well as those that did not report figure for either receivables or payables. The parameter estimates (standard errors in brackets) and other details are given in table 1.