Flexible prices and leverage

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Abstract

The frequency with which firms adjust output prices helps explain persistent differences in capital structure across firms. Unconditionally, the most flexible-price firms have a 19% higher long-term leverage ratio than the most sticky-price firms, controlling for known determinants of capital structure. Sticky-price firms increased leverage more than flexible-price firms following the staggered implementation of bank deregulation across states and over time, which we use in a difference-in-differences strategy. Firms' frequency of price adjustment did not change around the deregulation.

Keywords:
Capital structure, Nominal rigidities, Bank deregulation, Industrial organization and finance, Price setting, Bankruptcy
JEL classification: E12; E44; G28; G32; G33

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