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Abstract

This paper studies the life-cycle profiles of small firms' cost and use of credit using a panel of Finnish firms. The choice of method matters for the conclusions drawn about the relationship between firm age and financing costs; the cross-sectional age profiles of financing costs are hump-shaped and consistent with hold-up theories, whereas methods that control for cohort fixed effects demonstrate that the financing costs decrease monotonically as the firms mature. The life-cycle profiles of the use of credit also indicate that firms are more dependent on financial intermediaries in the early periods of their lives. Furthermore, the cohorts born during recessions pay higher financing costs and use smaller amounts of bank loans, even after their creditworthiness is controlled for. The recession cohort effect appears to be more related to the experience of starting-up the firm in the recession than to the CEOs growing up in a recession during their early adulthood.