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Does bank loan supply affect the supply of equity capital? Evidence from new share issuance and withdrawal

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**Does bank loan supply affect the supply of equity capital?
Evidence from new share issuance and withdrawal**

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We examine the hypothesis that fluctuations in the aggregate supply of bank loans influence the supply of new equity capital. Using residual lending standards as a clean measure of aggregate loan supply and a VAR framework to aid identification, we find that a one-standard-deviation shock to lending standards results in 15% fewer IPOs. Shocks elicit strong responses from IPO-firms that are highly dependent on external capital and increase the number of withdrawals, strengthening the interpretation that the above is driven by changes in the supply of equity. Our results suggest that credit conditions are important to a well-functioning IPO market.

Keywords: IPO volume, IPO withdrawal, credit constraints

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