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Accounting conservatism, bank lending and firm investment: Evidence from a quasi-experiment of China's stimulus package

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Abstract:

Using a sample of China's listed firms between 2003 and 2014, this study finds that firms receive more bank loans after the stimulus package which is less significant for firms with conservative accounting. In addition, firms with conservative accounting exhibit higher investment efficiency, which becomes weaker after the stimulus package which represents an exogenous shock to credit supply. Further analysis shows that the abovementioned findings are more significant for non-SOEs, firms from less government-favoured industries and regions, and firms with severe interest conflicts between debtholders and shareholders. These results are robust for alternative specification and alternative measurements. Overall, these findings suggest that the beneficial effects of accounting conservatism are subject to institutional environments and government policies.

Key words: Accounting conservatism, bank lending, firm investment, Stimulus package

JEL: E5, G18, G34, M41

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