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Trade Credit and Product Market Power during a Financial Crisis

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Abstract: *This paper investigates whether product market power affects trade credit decisions. We exploit the 2007-08 credit crisis in the U.S. as a source of variation in the importance of product market power for trade credit. We find that a one standard deviation increase in market power is associated to a decrease in payables of approximately four days during the crisis, showing that high market power firms alleviate financial constraints from their suppliers to avoid the loss of monopoly rents. Our inferences are robust to structural and non-structural measures of market power, both at the firm and at the industry levels, and the inclusion of controls to address potential confounding effects deriving from other firm features, including financial constraints, industry specific shocks and macroeconomic effects.*

Keywords: trade credit, financial crisis, market power, monopoly rents, liquidity provision

JEL classifications: G01; G30; G32; D43

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