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Threat of Entry and Debt Maturity: Evidence from Airlines[☆]

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Abstract

I explore the effect of the threat posed by low-cost competitors on debt structure in the airline industry. I use the route network expansion of low-cost airlines to identify routes where the probability of future entry increases dramatically. I find that when a large portion of their market is threatened, incumbents significantly increase debt maturity *before* entry occurs. Overall, the main findings suggest that airlines respond to entry threats trading off the benefits of short-term financing for lower rollover risk. The results are consistent with models in which firms set their optimal debt structure in the presence of costly rollover failure.

Keywords: Competition, debt maturity, rollover risk, threat of entry

JEL classification: G31, G32, D22, D43, L93

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