Debt market imperfection, capital structure and investment: An empirical analysis through the credit supply shock of 2008 in Japan

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This paper investigates how debt market frictions affect real firm behaviors such as capital structures and investments differently based on whether the firm has access to the public debt market, taking debt structure differences into account. To this aim, using the natural experimental approach to examine the 2008 credit supply shock in Japan, I show that firms without access to the public debt market face decreased leverage and investment, accompanied by decreased bank debt, compared to firms with access. Considering that firms without access to the public debt market are more dependent on banks for their debt and are likely to have closer relationships with banks than those with access, it is intriguing that bank-dependent firms face reduced debt supplies from banks compared to other firms. Moreover, through investigation of the regression of investments where the interaction term with different debt structures is introduced, it is suggested that differences in debt structure or debt maturity between firms with access to the public debt and those without also play an important role in determining debt and investment.