

R&D and Credit Rationing over the Credit Cycle*

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Abstract

We study the effects of credit rationing on Research and Development (R&D) investment using survey and accounting data on a large representative sample of manufacturing small and medium size enterprises (SMEs). Our econometric model accounts for the endogeneity of our credit rationing indicator and employs an innovative theory based identification strategy to account for demand and supply side determinants of credit rationing. Our results show that the credit channel operates in a non-linear way and amplifies the effects of credit restrictions on R&D investment decisions during the crisis. We also find that demand and supply side determinants play a differential role in contraction and expansion periods.

Keywords: R&D, credit rationing, financial crisis

JEL codes: G21, O32, C35, C34

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