Research Seminar "Quantitative Economics"

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Anna Rogantini (ECB)

Abstract

Dynamic Credit Constraints: Theory and Evidence from Credit Lines
(Niklas Amberg, Tor Jacobson, Anna Rogantini & Vincenzo Quadrini)

Abstract
We use a comprehensive Swedish credit register data to document that firms throughout the size distribution have access to fairly large and reasonably priced credit lines.However, they borrow relatively little from the credit lines. We also find that credit lines utilization is negatively related to real and financial uncertainty, suggesting that the observed low utilization is the result of tight ‘dynamic’ credit constraints, rather than unneeded funds. We illustrate the concept of ‘dynamic’ credit constraints with a simple theoretical model we use to estimate the borrowing capacity of each firm. We find that the estimated credit capacity is highly correlated with direct empirical measures of credit capacity based on credit lines committed amounts.