

Title: Loan Maturity and Dynamic Debt Overhang: Theory and New Evidence

Speaker: Apoorv Gupta, Dartmouth College

Area: F&A/DS

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Abstract:

Various theories of debt contracting highlight mechanisms through which loan maturity affects borrower behavior but empirical evidence on their relevance remains inconclusive. We provide empirical evidence on the question by exploiting a natural experiment implemented by a publicly-traded financial company in South Africa that extended the maturity of outstanding loans for financially distressed small businesses. Exploiting a cutoff rule that increased the maturity for a group of borrowers while keeping the maturity of otherwise observationally equivalent group unchanged, we find that a longer maturity increases labor supply, increases loan repayment, and reduces delinquencies on other debt sources for the business owners. These findings are consistent with a model where longer maturity lowers the market value of debt for liquidity constrained borrowers by making payments due later, reducing *future* debt overhang.

Speaker Profile:



Apoorv Gupta is an Assistant Professor of Economics at Dartmouth College. He is an applied economist who studies firms in developing countries. His work analyzes what drives the productivity and growth of firms in economies characterized by substantial market failures; in particular, how the performance of firms and allocation of resources across firms interacts with various frictions prevalent in developing economies. His more recent work has focused on understanding how market failures prevalent in developing economies – such as high cost of capital, high debt burden, bureaucratic inefficiencies, and limited competition – affect the performance and decision-making of firms.

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