

# Finance, Comparative Advantage, and Resource Allocation

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**6th FIW-Research Conference**

OeNB, Vienna

22nd February 2013

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  - **Disciplining and allocative role of finance**

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- Strong banking system can prevent inefficient use of resources before competitive product markets do so

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- $\omega_{ck} = \frac{X_k^c / X^c}{\sum_c X_k^c / X^c}$



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- Stratification according to industry:

$$h(t|X_{ckt_0}) = h_j(t) \exp[\beta_1 distance_{ckt_0} + \beta_2 FD_{ct_0} * distance_{ckt_0} + \gamma Controls_{ckt_0} + \delta_c + \delta_{t_0} + \varepsilon_{ckt_0}] \quad (1)$$

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- Countries' factor endowments and products' revealed factor intensities: Cadot et al. (2009)
- Private credit over GDP: Beck et al. (2000)
- External finance dependence of ISIC 4-digit sectors: Raddatz (2006)
- Factor intensities of ISIC 4-digit sectors: Romalis (2004)
- Export survival and other product-related variables: French dataset BACI, HS-6 level of disaggregation
- Final database: 71 countries, 1995 -2005 period
- 181.612 - 220.041 observations, depending on specification

# Results - Stratification according to industry

	(1)	(2)	(3)	(4)	(5)
Distance <sub>ck</sub>	0.126***	0.102***	0.077***	0.080***	0.062
BC <sub>c</sub> *Distance <sub>ck</sub>		0.041**	0.042**	0.035**	0.032
GDP <sub>c</sub> *Distance <sub>ck</sub>					0.002
BC <sub>c</sub> *ExF <sub>j</sub>				-0.184***	-0.184***
PhysCap <sub>c</sub> *CapInt <sub>j</sub>			0.794***	0.706***	0.705***
HumanCap <sub>c</sub> *HumInt <sub>j</sub>			-0.084***	-0.076***	-0.076***
PhysCap <sub>c</sub>			-0.040	-0.034	-0.034
HumanCap <sub>c</sub>			0.078	0.069	0.069
BC <sub>c</sub>		-0.035	-0.038	0.014	0.017
GDP <sub>c</sub>	0.141	0.235**	0.289**	0.292**	0.289**
Initial_Export <sub>ck</sub>	-0.084***	-0.084***	-0.085***	-0.085***	-0.085***
Total_Export <sub>ck</sub>	-0.104***	-0.105***	-0.104***	-0.104***	-0.104***
NSuppliers <sub>k</sub>	-0.020***	-0.020***	-0.020***	-0.020***	-0.020***
Multiple_Spell <sub>ck</sub>	1.024***	1.013***	1.045***	1.045***	1.044***

# Results - Stratification according to product

	(1)	(2)	(3)	(4)	(5)
Distance <sub>ck</sub>	0.145***	0.109***	0.080***	0.084***	0.048
BC <sub>c</sub> *Distance <sub>ck</sub>		0.068***	0.064***	0.052***	0.049**
GDP <sub>c</sub> *Distance <sub>ck</sub>					0.004
BC <sub>c</sub> *ExF <sub>j</sub>				-0.226***	-0.227***
PhysCap <sub>c</sub> *CapInt <sub>j</sub>			1.011***	0.887***	0.882***
HumanCap <sub>c</sub> *HumInt <sub>j</sub>			-0.098***	-0.089***	-0.089***
PhysCap <sub>c</sub>			0.035	0.043	0.041
HumanCap <sub>c</sub>			0.105	0.096	0.095
BC <sub>c</sub>		-0.081**	-0.082*	-0.015	-0.010
GDP <sub>c</sub>	0.207**	0.312***	0.332***	0.335***	0.331***
Initial_Export <sub>ck</sub>	-0.091***	-0.091***	-0.093***	-0.093***	-0.093***
Total_Export <sub>ck</sub>	-0.121***	-0.121***	-0.120***	-0.120***	-0.120***
NSuppliers <sub>k</sub>	0.007***	0.006***	0.005***	0.005***	0.005***
Multiple_Spell <sub>ck</sub>	1.026***	1.014***	1.033***	1.033***	1.033***

# Results - Stock markets

	(1)	(2)	(3)	(4)
Distance <sub>ck</sub>	0.147***	0.108***	0.113***	0.035
StM <sub>C</sub> *Distance <sub>ck</sub>	0.005	0.006	-0.008	-0.012
GDP <sub>C</sub> *Distance <sub>ck</sub>				0.009
StM <sub>C</sub> *ExF <sub>j</sub>			-0.209***	-0.212***
PhysCap <sub>C</sub> *CapInt <sub>j</sub>		0.851***	0.737***	0.728***
HumanCap <sub>C</sub> *HumInt <sub>j</sub>		-0.118***	-0.108***	-0.108***
PhysCap <sub>C</sub>		-0.051	-0.036	-0.039
HumanCap <sub>C</sub>		0.076	0.068	0.066
StM <sub>C</sub>	0.026	0.024	0.088***	0.093***
GDP <sub>C</sub>	0.193*	0.271**	0.271**	0.262**
Initial_Export <sub>ck</sub>	-0.093***	-0.096***	-0.096***	-0.096***
Total_Export <sub>ck</sub>	-0.126***	-0.124***	-0.124***	-0.124***
NSuppliers <sub>k</sub>	0.008***	0.006***	0.006***	0.006***
Multiple_Spell <sub>ck</sub>	1.076***	1.101***	1.101***	1.101***

# Results - Robustness Checks

	(1)	(2)	(3)	(4)	(5)
Distance <sub>ck</sub>	0.028	0.021	0.080	0.025	-0.072
BC <sub>c</sub> *Distance <sub>ck</sub>	0.044**	0.034**	0.070***	0.045***	0.067***
GDP <sub>c</sub> *Distance <sub>ck</sub>	0.007	0.004	-0.001	0.002	0.019
BC <sub>c</sub> *ExF <sub>j</sub>	-0.218***	-0.227***	-0.229***	-0.225***	-0.220***
PhysCap <sub>c</sub> *CapInt <sub>j</sub>	0.901***	0.885***	0.923***	0.915***	0.830***
HumanCap <sub>c</sub> *HumInt <sub>j</sub>	-0.092***	-0.090***	-0.099***	-0.097***	-0.096***
PhysCap <sub>c</sub>	-0.032	0.037	0.049	0.046	0.022
HumanCap <sub>c</sub>	0.085	0.100	0.100	0.100	0.123*
BC <sub>c</sub>	-0.010	-0.007	-0.065	-0.066	-0.023
GDP <sub>c</sub>	0.427***	0.331***	0.333***	0.327***	0.360***
Initial_Export <sub>ck</sub>	-0.095***	-0.093***	-0.093***	-0.093***	-0.104***
Total_Export <sub>ck</sub>	-0.124***	-0.120***	-0.120***	-0.120***	-0.130***
NSuppliers <sub>k</sub>	0.005***	0.005***	0.005***	0.005***	
Multiple_Spell <sub>ck</sub>	1.082***	1.032***	1.032***	1.032***	1.166***



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  - Export subsidies provide additional free cash flow

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# Conclusion

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  - Capital market imperfections can have adverse effects on exports
  - BUT: Export promotion not a perfect substitute for financial development

Thank you

THANK YOU FOR YOUR ATTENTION

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