Discussion of

"The Impact of Bank Shocks on Firm-Level Outcomes and Bank Risk Taking"

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Research Questions

- What is the impact of bank loan supply shocks on firm-level outcomes and bank risk taking.
- Methodological Contribution
  - Identifying the bank-lending channel
    - Without relying on one-off events
    - Or, requiring a sample of firms that borrow from multiple banks
- Do bank supply shocks generate real effects?
  - On borrower growth of assets, investments, and sales
  - On bank risk-taking – composition and risk of loan portfolios
- The paper is asking important questions!

Disentangling the Bank-Lending and Firm-Borrowing Channels

- Identification:
  - For the sample of firms borrowing from multiple banks:

$$\Delta L_{fbt} = \alpha_{ft} + \beta_{bt} + \epsilon_{fbt}$$

  - But, 87% of the sample firms borrow from only one bank.
  - Replace firm-time FE with industry-location-size-time FE

$$\Delta L_{fbt} = \alpha_{ILSt} + \beta_{bt} + \epsilon_{fbt}$$

It does the job!

Comments

- Mostly on the second part of the paper.
- Identifying a linkage between the supply of capital and corporate behavior is important
  - Heterogeneity in Real Outcomes - size, age, and leverage
    - Statistical tests ?
    - Sorts based on leverage ratio ?
      - Debt ratios are endogenous
  - Other proxies for firms facing greater adverse selection
  - Do the risky firms respond differently?

Comments: Substitution

- Substitution
  - To other banks?
    - Single bank versus multiple banking relationships
  - To equity, trade credit, or internal funds?
  - Cost of switching to alternative sources - heterogeneity
- Do firms change their dividend policy?
- What happens to their leverage ratios?
  - Is their a one-for-one decline in investments?
- What about employment?

Comments: Effects on Investments

- Examine different components of investments
  - Capital expenditures
  - Acquisitions
  - Sale of property, plant and equipment
- What is the precise channel through which supply shock travels?

Comments: Firm Performance

- What is the impact of supply shock on firm performance and value?
    - Do negative supply shocks result in underinvestment (or prevent overinvestment)?
    - Do firms overinvest when lenders face positive supply shocks?

Conclusions

- Paper makes many important contributions
  - Use of industry-location-size-time fixed effects to identify bank loan shocks
  - Shocks matter both during normal times and during crises periods.
  - Real effects on both borrowers and banks.
- This discussion has made some suggestions for further extensions.