Discussion of “Do Technology Spillovers Affect Corporate Financial Policies?” by Kesckés and Nguyen

Discussion by

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What is this paper about?

- Do technological spillovers affect financing?

$$TECHSPILL_{it}^{Mahal} = \sum_{j \neq i} TECH_{ij}^{Mahal} G_{jt}$$

Leverage Ratio

Debt versus equity issuance

Collateralized debt

Cost of debt

Why should technology spillovers matter?

- Increase asset redeployability
  - Technology proximity increases. Collateral value of patents is higher.
    - Lenders charge lower spreads. Firm borrows more.
- Technology spillovers – greater complexity.
  - More adverse selection.
  - Increases the cost of equity.
  - Firm issues less equity. And, becomes more leveraged.

What is TECHSPILL measuring?

$$TECHSPILL_{it}^{Mahal} = \sum_{j \neq i} TECH_{ij}^{Mahal} G_{jt}$$

Technological proximity

R&D stock

Question: How do firms decide technology investments? What types of firms invest in technology with greater proximity? Versus those that are further apart?

Identification: R&D tax credits

Importance of weights in TECHSPILL

$$TECHSPILL_{it}^{Mahal} = \sum_{j \neq i} TECH_{ij}^{Mahal} G_{jt}$$

Are the weights important?

Question: What results would you get if you equally weight the R&D stock of peer firms? Or use random weights?

More cross-sectional tests

- Asset redeployability of technology is important for:
  - Financially constrained firms
  - Firms with few other collateralizable assets: Fewer tangible assets and higher M/B ratios
- Establishing the channel
  - Does technological proximity reduce the asset volatility?
  - Does it reduce systematic risk?

Long-run returns

- Econometric issues with long-run returns.
- Examine earnings response coefficients.

Conclusions

- Important contribution
- Clean hypothesis. Excellent execution.
- Nice paper!