Trade Credit and Product Market Power during a Financial Crisis

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Abstract: *This paper investigates whether product market power affects trade credit decisions. We exploit the 2007-08 credit crisis in the U.S. as an exogenous source of variation in the importance of product market power for trade credit. We find that firms with high market power decrease their payables by more than six days relative to firms with low market power during the crisis, which is consistent with previous evidence that high market power firms alleviate financial constraints from their suppliers to avoid losing monopoly rents. Our inferences are robust to the inclusion of several controls to address potential confounding effects deriving from other firm features, including financial constraints.*

Keywords: trade credit, financial crisis, market power, monopoly rents, liquidity provision

JEL classifications: G01; G30; G32; D43

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