Abstract

This thesis consists of three chapters that are empirical investigations of classical questions in the financial and industrial economics literature on the influence of institutions and industry conditions on the firm's access to finance, the propensity to merge, and productivity.

In the first chapter, coauthored with Jan Bena, we examine whether financial markets development facilitates the efficient allocation of resources. Using European micro-level data for 1996-2005, we show that firms in industries with high growth opportunities use more external finance in financially more developed countries. This result is particularly strong for firms that are more likely to be financially constrained and dependent on domestic financial markets, such as small and young firms. Our findings are robust to controlling for technological determinants of external finance needs and to using different proxies for growth opportunities.

In the second chapter, I investigate the role of productivity in the selection of firms into acquisitions and whether acquisitions lead to productivity gains. Using matching methodology and a large dataset of domestic acquisitions among public and private firms in Europe over the period 1998-2008, I find that first, targets are under-performing before engaging in horizontal acquisitions; second, there is positive assortative matching in revenue productivity for firms engaging in vertical acquisitions; and third, economically and statistically significant productivity gains exist only for targets acquired in horizontal acquisitions. Overall, the results for horizontal deals are consistent with the Q-theory of mergers, which assumes asset substitutability. The results for vertical deals, in which firms' assets are likely to be complements, are consistent with the search and matching model built on the property rights theory of the firm.

In the third chapter, coauthored with Jan Bena and Eva Vourvachaki, we examine the impact of market liberalization, e.g. the removal of state monopolies and entry barriers commanded by the European Commission as part of the Single Market Program, on the productivity of utilities, transport and telecommunication services in a set of European countries. Exploiting the variation in the timing and degree of liberalization efforts across countries and industries, we find that liberalization has increased firm-level productivity but has had no reallocation impact. Based on our estimates, the average firm-level productivity gain from liberalization amounts to 38 percent of the average within-firm productivity gain in network industries over 1998-2007. Our results underscore the growth-promoting role of liberalization efforts.