

Estimating individual financial constraints

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Abstract

We estimate firm-specific *cash flow sensitivities of investment* for a panel of manufacturing SMEs, using the generalized maximum entropy-estimator (GME). Since this estimator easily allows for slope heterogeneity, we no longer have to rely on *ex-ante sample splitting*, which has been common practice in this literature. The results show a wide variation in individual sensitivities in every year, demonstrating the relevance of estimating firm-specific coefficients rather than an aggregate coefficient for assumed sub-samples. On the basis of the distribution of estimated sensitivities, differences in financial profile and financing behaviour between high sensitivity firms and the remainder of the sample were analysed. The results provide evidence for the existence of financial constraints for the high sensitivity sub-sample based on financial profile, but not on the actual use of various funding sources.

Keywords: corporate finance, small business finance, financial constraints, dynamic panel estimation, entropy econometrics, slope heterogeneity

1

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