

# Dynamics of External Capital Structure

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# Determinants of External Capital Structure

- Equity-debt mix: risk-sharing; leverage; productivity
- Lane and Milesi-Ferretti (2001), "External Capital Structure"
- Faria, Lane, Mauro and Milesi-Ferretti (JEEA, 2007)

Levels

$$Y_{it} = \alpha + \beta * INST_{it} + \gamma Z_{it} + \varepsilon_{it}$$

First Difference

$$Y_{it+s} - Y_{it} = \alpha + \beta * (INST_{it+s} - INST_{it}) + \gamma(Z_{it+s} - Z_{it}) + u_{it+s}$$

'Partial Adjustment'

$$Y_{it+s} - Y_{it} = \alpha + \beta * (INST_{it+s} - INST_{it}) + \gamma(Z_{it+s} - Z_{it}) - \delta GAP_{it} + u_{it+s}$$

# Determinants of External Capital Structure I

	1996			2004		
	Total	Eq.Share	FDI/Equity	Total	Eq.Share	FDI/Equity
Institutional quality index	0.263 (0.143)	0.088** (0.046)	-0.047 (0.033)	0.241** (0.100)	0.08* (0.046)	-0.059 (0.039)
GDP (log)	-0.047 (0.041)	0.023** (0.013)	-0.066*** (0.01)	-0.066** (0.030)	0.029** (0.014)	-0.064*** (0.011)
GDP per capita (log)	-0.18* (0.08)	0.017 (0.026)	0.025 (0.019)	-0.098 (0.061)	0.012 (0.028)	0.035 (0.022)
Openness	0.14 (0.23)	0.101 (0.073)	-0.031 (0.053)	0.257* (0.130)	0.151** (0.060)	-0.029 (0.050)
Natural resources	0.41** (0.204)	0.167** (0.066)	0.047 (0.047)	0.236 (0.154)	0.157** (0.071)	0.037 (0.059)
Constant	1.11** (0.49)	-0.077 (0.156)	1.55*** (0.11)	1.43*** (0.35)	-0.042 (0.164)	1.53*** (0.14)
Observations	74	74	74	73	73	73
R-squared	0.26	0.35	0.54	0.28	0.34	0.39

• Faria, Lane, Mauro and Milesi-Ferretti (JEEA, 2007)

# Determinants of External Capital Structure II

	Full			Narrow		
	Total	Eq.Share	FDI/Equity	Total	Eq.Share	FDI/Equity
Institutional quality index	-0.07 (0.17)	0.052 (0.051)	-0.058 (0.048)	-0.02 (0.2)	0.039 (0.065)	-0.057 (0.084)
Financial reform index				-1.18* (0.67)	0.55** (0.22)	-0.072 (0.287)
GDP (log)	-0.076 (0.05)	-0.039** (0.015)	-0.01 (0.014)	-0.08 (0.082)	0.003 (0.027)	-0.023 (0.035)
GDP per capita (log)	0.11** (0.043)	0.025* (0.013)	0.005 (0.012)	0.12 (0.08)	-0.016 (0.026)	0.017 (0.034)
Openness	0.94** (0.41)	0.17 (0.12)	0.004 (0.12)	0.43 (0.6)	0.282 (0.199)	-0.123 (0.257)
Natural resources	-0.24 (0.4)	0.038 (0.12)	0.14 (0.11)	1.0 (0.71)	-0.128 (0.236)	0.463 (0.305)
Constant	0.02 (0.15)	0.23*** (0.05)	-0.002 (0.04)	0.22 (0.24)	0.076 (0.080)	0.038 (0.103)
Observations	62	62	62	35	35	35
R-squared	0.30	0.19	0.05	0.32	0.28	0.12

# Determinants of External Capital Structure III

	Full			Narrow		
	Total	Eq.Share	FDI/Equity	Total	Eq.Share	FDI/Equity
Institutional quality index	-0.053 (0.15)	0.034 (0.052)	-0.07 (0.05)	-0.026 (0.170)	0.048 (0.081)	-0.07 (0.09)
Financial reform index				-1.317 (0.789)	0.503* (0.274)	-0.08 (0.36)
GDP (log)	-0.08 (0.05)	-0.024 (0.015)	-0.012 (0.013)	-0.067 (0.104)	0.008 (0.029)	-0.028 (0.045)
GDP per capita (log)	0.08* (0.045)	0.024 (0.014)	0.01 (0.01)	0.070 (0.095)	-0.016 (0.029)	0.020 (0.04)
Openness	0.84** (0.4)	0.17 (0.13)	-0.01 (0.09)	0.407 (0.865)	0.28 (0.248)	-0.124 (0.34)
Natural resources	-0.001 (0.61)		0.15 (0.16)	0.805 (0.759)	-0.08 (0.27)	0.443 (0.4)
ECM	-0.5*** (0.13)	-0.31** (0.12)	-0.33** (0.15)	-0.73** (0.3)	-0.13 (0.25)	-0.42 (0.35)
Constant	0.1 (0.13)	0.17*** (0.05)	0.003 (0.04)	0.31 (0.27)	0.06 (0.09)	0.05 (0.13)
Observations	62	62	62	35	35	35