Abstract

The aim of this paper is to analyze to what extent business growth opportunities influence decisions on bank debt. This objective is addressed by considering both the arguments of the positive agency theory and the institutional characteristics of the Chilean financial system. An empirical analysis considers the GMM system estimator applied to panel data of quoted Chilean firms for the period 1997 to 2008. The main advantage of this methodology is that it overcomes the heterogeneity and endogeneity problems. The main finding supports the hypothesis of the existence of a non-monotonic U-shaped relationship between growth opportunities and the level of bank debt. The initial negative relationship is explained by the costs associated with underinvestment problems, whilst the increasing part which reflects the positive relationship among growth opportunities and bank debt is based on the arguments of overinvestment costs. This result is robust to a number of alternative measures of growth opportunities.

Keywords

Growth opportunities, bank debt, panel data, institutional environment.