Threat of Entry and Debt Maturity: Evidence from Airlines

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PII: S0304-405X(17)30297-0
DOI: 10.1016/j.jfineco.2017.11.009
Reference: FINEC 2833


Received date: 25 April 2016
Revised date: 12 January 2017
Accepted date: 13 January 2017


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Abstract
I explore the effect of the threat posed by low-cost competitors on debt structure in the airline industry. I use the route network expansion of low-cost airlines to identify routes where the probability of future entry increases dramatically. I find that when a large portion of their market is threatened, incumbents significantly increase debt maturity before entry occurs. Overall, the main findings suggest that airlines respond to entry threats trading off the benefits of short-term financing for lower rollover risk. The results are consistent with models in which firms set their optimal debt structure in the presence of costly rollover failure.

Keywords: Competition, debt maturity, rollover risk, threat of entry

JEL classification: G31, G32, D22, D43, L93

This paper was written mostly during my stay at Harvard University and is part of my Swiss Finance Institute and University of Lugano PhD dissertation. I am grateful to the U.S. Department of Transportation for providing the data. For valuable comments, I thank Toni Whited (the editor), Tony Cookson (the referee), Frederic Boissay, Markus Brunnermeier, Francois Degeorge, Alexander Eisele, Francesco Franzoni, Laurent Fresard, Robin Greenwood, Charles Hadlock, Victoria Ivashina, Yelena Larkin, Liang Ma, Aytek Malkhozov, Colin Mayer, Filippo Mezzanotti, Kim Peijnenburg, Alberto Piazza, Tom Powers, Giuseppe Pratobevera, Farzad Saidi, Martin Schmalz, and Adi Sunderam. I also thank participants in seminars and conferences at Aalto Business School, Bocconi University, Cambridge Judge Business School, Cufef, Frankfurt School of Management and Finance, Harvard Business School, Hong Kong University, Oxford Said Business School, Stockholm School of Economics, University of Lugano, the WFA 2015 meeting in Seattle, the SFS Finance Cavalcade 2015 meeting in Atlanta, the EFA 2015 Meeting in Vienna, and the Eurofidi Conference 2014 in Paris. I am grateful to Jeff Gorham at the U.S. Department of Transportation for resolving questions about the data. I acknowledge financial support from the Swiss National Science Foundation and the Swiss Finance Institute.

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