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Abstract

Using the collapse of the junk bond market in the early 1990s as an exogenous shock to external capital, I document, in both difference-in-differences and triple difference designs, that speculative-grade firms that recognize economic losses in a timely manner experience a smaller reduction in investment following the collapse. The effect is more pronounced for speculative-grade firms with a low level of asset liquidation value. Using the excess bond premium as a proxy for fluctuations in the supply of capital, I also extend the generalizability of my findings to a broader sample of 84,421 firm-years over the 1972–2011 period.

JEL Classification: G01; G31; G32; G33; M41
Keywords: Accounting Conservatism; Asymmetric Timely Loss Recognition; Financial Reporting Conservatism; Financing Frictions; Investment; Supply of Capital; Shocks to External Capital; Excess Bond Premium

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