

Agglomeration and Industry Spillover Effects in the Aftermath of Credit Crunch

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Abstract:

This paper provides empirical evidence showing that industries with intense strategic complementarities exhibit stronger sensitivity to economic shocks. The 2009's Portuguese credit crunch represents a negative shock for nonfinancial firms, which has created negative spillover effects among firms. Corporate investment declines significantly in industries with strong strategic complementarities following the onset of the crisis, controlling for firm fixed effects, time varying measures of financial constraints and investment opportunities. Consistent with a causal effect, the decline is greatest for firms in industries with strong strategic complementarities. To address sample selection concerns we consider several sample splits and apply a matching approach to find the best counterfactual, and confirm similar results.