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## Financial Contractability and Asset Hardness

43 Pages

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### Abstract

One characteristic of poorly developed capital markets is the disproportionate weight that the availability of hard assets has in the allocation of financial funds. Where financial contractability is poor, external finance requires higher proportions of assets that more easily remain with investors if the relationship deteriorates. Consistent with this view, I show that industries with less tangible assets perform disproportionately worse in terms of growth and GDP contribution in countries with poorly developed financial systems. The more dependent the industry is on external finance, the larger the impact. Firm-level evidence also confirms finance as the link: leverage is less sensitive to tangibility in better-working capital markets.

**Keywords:** Financial Development, Collateral, Incomplete Contracts, Leverage**JEL Classification:** F00, G00, L06, O04[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID2522890\\_code356926.pdf?abstractid=2522890&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2522890_code356926.pdf?abstractid=2522890&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID2522890\\_code356926.pdf?abstractid=2522890&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2522890_code356926.pdf?abstractid=2522890&mirid=1&type=2)

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