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≡ Menu

Property Rights and Finance

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Article Information

Abstract

Which is the tighter constraint on private sector investment: weak property rights or limited access to external finance? From a survey of new firms in post-communist countries, we find that weak property rights discourage firms from reinvesting their profits, even when bank loans are available. Where property rights are relatively strong, firms reinvest their profits; where they are relatively weak, entrepreneurs do

not want to invest from retained earnings.

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M13 New Firms; Startups

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