



Property Rights and Finance

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AMERICAN ECONOMIC REVIEW
VOL. 92, NO. 5, DECEMBER 2002
(pp. 1335-1356)

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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.

Citation

Johnson, Simon, John McMillan, and Christopher Woodruff. 2002. "Property Rights and Finance ." *American Economic Review*, 92 (5): 1335-1356.

DOI: 10.1257/000282802762024539

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D23 Organizational Behavior; Transaction Costs; Property Rights

M13 New Firms; Startups

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