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# Capital Structure and the Redeployability of Tangible Assets

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**Abstract:**

We characterize the relation between corporate asset structure and capital structure by exploiting variation in the salability of tangible assets. Theory suggests that tangibility increases borrowing capacity because it allows creditors to more easily repossess a firm's assets. Tangible assets, however, are often illiquid. We show that the redeployability of tangible assets is a main determinant of corporate leverage. To establish this link, our analysis uses an instrumental variables approach that incorporates measures of supply and demand for various types of tangible assets (e.g., machines, land, and buildings). Consistent with a credit supply-side view of capital structure, we find that asset redeployability is a particularly important driver of leverage for firms that are likely to face credit frictions (small, unrated firms). Our tests also show that asset redeployability facilitates borrowing the most during periods of tight credit. Our work contributes new evidence to capital structure models that are based on contract incompleteness and limited enforceability. It does so characterizing a well-defined channel through which credit frictions affect firm financial decisions.

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