

The Real Effects of Bankruptcy Forum Shopping

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Discussion by

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Summary

- Question
 - ▶ How does forum shopping affect firm liquidation and employment?
- Approach
 - ▶ Compare firm outcomes across exposure to filing in Delaware
 - ▶ Instrument for filing using distance, fixed effects, and controls
 - ▶ Scrape court records for detailed bankruptcy data
- Key Results
 - ▶ Relative distance to Delaware predicts filing status
 - ▶ Filing in Delaware plausibly causes lower liquidation
 - ▶ Leads to higher post-bankruptcy employment and establishments
- Comments
 - ▶ Selection
 - ▶ Relevant Population
 - ▶ Interpretation

Selection

Selection on Location

- Causal estimates require treatment randomization

$$E[Y_{1i} | Delaware_i = 1] - E[Y_{0i} | Delaware_i = 0]$$

- ▶ Take observed difference

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$$E[Y_{1i}|Delaware_i = 1] - E[Y_{0i}|Delaware_i = 1] = E[Y_{1i}|Delaware_i = 0] - E[Y_{0i}|Delaware_i = 0]$$

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- ▶ Assuming no heterogeneity, provides average treatment effect

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- ▶ **Takeaway:** Placebo test fails to distinguish between null and alternative hypothesis

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 - ▶ Lenders, employees, suppliers observe two identical firms
 - ▶ Unobserved heterogeneity: Matching of counter-parties (and outcomes) determined by **distance**

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- ▶ **New:** Change in demand for DE across distance and caseload

$$Y_{i,s,t} = \alpha_{s,t} + \beta \text{Neg. Distance to DE}_j + \gamma \text{Neg. Distance to DE}_j \times BAPCA_t \\ + \varphi \text{Neg. Distance to DE}_j \times Caseload_{s,t} \times BAPCA_t + \varepsilon_{i,s,t}$$

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- ▶ **Newer:** Change in demand for DE across distance and regime change

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 - ▶ Alternative: Match candidate firms on observables

Relevant Population

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- **Takeaway:** Discuss relevant population → Appear to be weaker unsophisticated firms

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- **Takeaway:** ATT can generate **relevant** treatment effect

Interpretation

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 - ⇒ Test #2: Changes in secondary market activity

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 - Test: Compare within state and across counties using SBA data

Conclusion

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- Excellent paper studying policy relevant topic
- Worthwhile to address econometric challenges
- Room to explore deeper economics