

DISSERTATION PROPOSAL

Xiaonan Hong

“Essays in Corporate Finance”

Monday, December 4, 2023
12:00pm
Via Zoom

Chapter 1: State-dependent Price of Customer Capital

Customer capital is a type of intangible capital relevant to customer relationships. We build a neoclassical investment model which incorporates a state-dependent marginal price of customer acquisition. We highlight two opposing micro-level forces that drive variations in the marginal price: *Word-of-Mouth Effect* and *Saturation Effect*. As a firm’s customer base grows, finding potential customers becomes harder while adding them into the base becomes easier. The state-dependent marginal price breaks the constant price assumption in the classical model of physical capital. This model may explain the rise of industry concentrations, and the discrepancy between investment regression and q-theory.

Chapter 2: Trade Credit Payment Behavior

Trade credit is a significant short-term financing source comprising a quarter of corporate debt. Most literature focuses on the suppliers’ provision of trade credit, leaving customers’ payment behavior less explored. Using proprietary trade credit payment data, I propose to understand how firms utilize trade credit’s payment flexibility for working capital management. The time-series and cross-sectional variations of delayed payment may reflect the dynamic market power on the supply chain. The research will shed light on the regulatory discussions on the corporate payment timeliness disclosures.

Chapter 3: Convertible Debt and Capped Call Transaction

Convertible debt issuance is usually bundled with a capped call transaction for anti-dilution purposes. The capped call transaction along with the original convertible debt synthetically creates a new convertible debt with higher conversion price. Had the firm issued the convertible debt with a higher conversion price, the interest rate would have been higher. By issuing the convertible debt with capped call, the firm could report a low interest expense for book purposes and a high effective interest rate for tax purposes. We propose to collect data on convertible debt issuance and bundled capped call transactions to understand this tax-shield incentive in convertible debt issuance.