

IWH Research Seminar in Economics

Montag, 23. Oktober 2017, 14:15 – 15:45 Uhr, Konferenzsaal im Erdgeschoss



Bad Times, Good Credit

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Banks' limited knowledge about borrowers' creditworthiness constitutes an important friction in credit markets. Is this friction deeper in recessions, thereby contributing to cyclical swings in credit? Alternatively, is the depth of this friction reduced in recessions, as tough times reveal information about firm quality? We test these alternative hypotheses using internal ratings data from a large, Swedish bank. This banks' ability to sort borrowers by credit quality is best in recessions, and worst in good times. Our results suggest that information frictions are counter-cyclical in corporate credit markets.

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