

# **“Policy Distortion in Capital Allocation: Evidence from a Fiscal Stimulus Plan”** (in English)

**Date: 30 April 2015 (Thursday)**  
**Time: 11 am - 12:30 pm**  
**Venue: WYL102, Dorothy Y. L. Wong Building**

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## Abstract:

This paper examines policy distortion in capital allocation across firms. Our empirical analysis is based on a loan-level data set covering the period from August 2006 to July 2010 from one of the largest state-owned banks in China. We exploit the policy announcement of a fiscal stimulus plan in November 2008 as an exogenous shock to the bank's loan allocation to show that policy intervention results in capital misallocation between state-owned firms and private firms and between firms in preferential industries and firms in other industries. Interestingly, our sample bank offsets part of this capital misallocation by its tightening credit risk pricing. We further show that the capital misallocation between state-owned firms and private firms is more severe among new firms without a credit rating available to our sample bank than among existing firms. Finally, our results are robust to the use of an alternative measure of policy intervention based on China's monetary policy stance. The findings of this paper show that government intervention in banks' loan allocation is an important source of capital misallocation in China.

## Biography:

Professor Chun-Yu Ho earned his PhD in economics from Boston University and his MPhil in economics and BSc in economics and finance from Hong Kong University of Science and Technology. Before joining Shanghai Jiao Tong University, he was an assistant professor of economics at Georgia Institute of Technology. He also held visiting positions at Bank of Finland (Institute for Economies in Transition) and Hong Kong Institute of Monetary Research.

**All Are Welcome**

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