

Homework 2 – The Global Firm
Spring 2012

In the paper “Multinational Firms, FDI Flows, and Imperfect Capital Markets” (QJE 2009), Pol Antràs, et al. worked out a theory that examines how costly financial contracting and weak investor protection influence the cross-border operational, financing and investment decision of multinational firms.

- (1) Find column (1) of Table IV. Explain, using the theory by Antràs, et al., why the coefficient on *creditor rights* is negatively correlated with *share of affiliate equity owned by parent* (or *parent share* for short). And in what sense the market is *imperfect* when the property rights are not well protected? (note that a higher value of creditor rights means better protection of property rights)
- (2) Find column (3) of the same table. Explain what it means when the coefficient on the interactive term between creditor rights and parent R&D is negative. Also note that when including the interaction, the coefficient on credit rights is still negative, but becomes statistically insignificant. What does this tell you?