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?