Firm Life Cycle and Cost of Debt*

Abu Amin  
Central Michigan University  
amin1a@cmich.edu

Blake Bowler  
Fisher School of Accounting  
University of Florida  
blake.bowler@warrington.ufl.edu

Mostafa Monzur Hasan  
Macquarie University  
mostafa.hasan@mq.edu.au

Gerald L. Lobo  
C. T. Bauer College of Business  
University of Houston  
gjlobo@uh.edu

Jiří Trešl  
University of Mannheim and CERGE-EI†  
jtresl@mail.uni-mannheim.de

Abstract

This paper examines the relation between the corporate life cycle and lending spreads. Using a sample of 20,307 firm-loan observations spanning 5,076 publicly traded U.S. firms, we find that lending spreads follow a U-shape pattern across the life cycle phases. This pattern is in addition to the variation explained by typical controls. In a multivariate analysis, we find that firms in the introduction and decline phases pay lending spreads that are greater than firms in the mature phase (differences of 6 percent and 12 percent, respectively). We explore omitted variables bias and instrumental variable estimation in robustness testing and find that the U-shape pattern persists. Our findings are consistent with theoretical predictions regarding the relationship between the corporate life cycle and various lending risks.

Keywords: Firm life cycle; cost of debt; bank loans; risk.
JEL Classification: G32, M21

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† CERGE-EI, a joint workplace of Charles University and the Economics Institute of the Czech Academy of Sciences, Politických veznu 7, P.O. Box 882, 111 21 Prague 1, Czech Republic.