

Firm Fragility Measures and the Effects of Public Fund Injections in Japan

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Abstract

This paper empirically examines the effect of the public fund injections into Japanese large banks in 1998, 1999, and 2003 on the financial conditions of Japanese corporations by using the distance to default, which is a quantitative measure for the default risk of each each. First, we find that the distance to default has substantial information for the future changes of the financial conditions of Japanese corporations within 15 to 20 days. Secondly, using the event study, we provide the evidence that the three public funds injections into Japanese large banks do not essentially contribute to the improvement of the financial conditions of Japanese corporations.

JEL classification: G12; G14; G18

Keywords: credit risk, distance to default, event study, public fund injection,

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