

# Trade credit or bank loans? Debt choice of start-up firms in Japan\*

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January 23, 2015

**Abstract:** This article explores trade credit during the start-up stage. Using data on start-up firms in Japan, we examine what factors affect trade credit use. We provide evidence that start-up firms decrease trade credit over time and that trade credit is negatively associated with bank loans. The results indicate that trade credit is substitute for bank loans by mitigating information asymmetries between entrepreneurs and financial institutions over time. Our findings suggest that the demand for trade credit stems from the financial motive, rather than the transaction motive, for start-up firms.

*JEL Classifications:* G30; G32; M13

*Keywords:* Bank loans; Finance; Start-up; Trade credit; Transaction

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\*This study is financially supported by a Grant-in-Aid for Scientific Research (B) (No. 26285060) from the Japan Society for the Promotion of Science. Any remaining errors are the authors' own.