Banks versus Credit Unions in Alleviating Financial Constraints; Comparison by a Structural Estimation*

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Abstract

We compare banks and credit unions by their performance in alleviating financial constraints of their borrowers. To measure the financial constraints of firms, we apply a structural method which is based on dynamic contract theory, maximum likelihood estimation, and model selection. By employing it, we can avoid using simple measures of financial constraints whose validity is controversial. The preliminary result suggests that credit unions perform better.

Keywords: Financial constraints, Firm investments, Financial intermediation, Relationship lending, Credit unions, Investment-cash flow sensitivity, Moral hazard
JEL Classification: D25, D82, G21

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