



The effect of employment protection legislation and financial market imperfections on investment : evidence from a firm-level panel of EU countries /

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Banco de España,
2009

Analítica

This paper analyzes the joint effect of EPL and financial market imperfections on investment, capital-labour substitution, labour productivity and job reallocation in a cross-country framework. In the spirit of Rajan and Zingales (1998) and Ciccone and Papaioannou (2006), we exploit variation in the need for reallocation at the sectoral and aggregate level to assess the average effect of EPL on firms policies. Then, exploiting firm-level information we study if the effect of EPL is stronger in firms with lower levels of internal resources. We find that, on average, EPL reduces investment per worker, capital per worker and value added per worker in high reallocation sectors relative to low reallocation sectors. The reduction in the capital-labour ratio is less pronounced in firms with higher internal resources, suggesting that financial constraints exacerbate the negative effects of EPL on capital deepening

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Título: The effect of employment protection legislation and financial market imperfections on investment evidence from a firm-level panel of EU countries Federico Cingano... [et al.]

Editorial: Madrid Banco de España 2009

Descripción física: 52 p. 30 cm

Mención de serie: Documentos de trabajo / Banco de España, Servicio de Estudios ISSN 0213-2710 2009-14

Formato físico adicional: Texto completo disponible también en Internet, en formato PDF

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Entidades: Banco de España. Servicio de Estudios

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