Internet Appendix A242: Bank Loans
Illustrative Reverse Engineered Pitch Template Example

Pitcher's Name	Yue Dong (UQ Summer Scholar)	FoR category	Financing Policy	**Date Completed**	03/02/2018
(A) Full reference	Dong, Y., Liu, Z., Shen, Z., & Sun, Q. (2016). Does state ownership really matter in determining access to bank loans? Evidence from China's partial privatization. *Pacific-Basin Finance Journal, 40,* 73-85.				
(B) Basic Research Question	Does state ownership matter for access to bank loans?				
(C) Key paper(s)	● Allen, F., Qian, J., & Qian, M. (2005). Law, finance, and economic growth in China. *Journal of financial economics, 77*(1), 57-116. ● Fan, J. P., Huang, J., & Zhu, N. (2013). Institutions, ownership structures, and distress resolution in China. *Journal of Corporate Finance, 23,* 71-87. ● Li, K., Yue, H., & Zhao, L. (2009). Ownership, institutions, and capital structure: Evidence from China. *Journal of comparative economics, 37*(3), 471-490.				
(D) Motivation/Puzzle	Exploring the relationship between state ownership and the access to bank loans is of great importance in the formal financial system in supporting faster economic growth than informal systems do. Prior studies based on ordinary least squares (OLS) regressions report a positive cross-sectional relationship between state ownership and long-term debt ratios. However, the authors cast doubts on this positive relationship for the following three reasons: 1. Banks have become more responsible for their own profits and losses since later 1990s; thus, the loan decisions they make are increasingly based on the risk–return analysis. 2. It is unreasonable to argue that banks perceive that the government will pick up the bill when an SOE defaults on its debt repayments; and 3. This positive relationship can be a manifestation of a hand-in-hand decrease both in state ownership and in long-term debt ratios due to partial privatization.				
THREE	**Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide				
(E) Idea?	The objective of this paper is to re-examine the relationship between state ownership and the long-term borrowing of a firm after taking into account the mechanical debt reduction or endogeneity problem. The key dependent variable is the ratio of long-term debts to total assets, while the key independent variable is the proportion of state holdings in the firm as the proxy for state ownership. Other firm-level characteristics have been controlled.				
(F) Data?	The final sample used in this paper consists of 702,300 firm-year observations from 165,816 unique Chinese manufacturing firms operating in the unlisted sector over the 1998–2007 period. The large dataset is maintained by the National Bureau of Statistics (NBS) of China. Since 1998, this NBS dataset has started to track non-public industrial firms in mainland China with annual sales above RMB 5 million. Firms tracked by the NBS are required to file annual reports on their production activities, accounting, and financial information, which allow us to construct variables for the empirical analysis that follows.				
(G) Tools?	The authors apply the simple pooled OLS regression analysis, firm fixed-effect estimation and the propensity score matching (PSM) method to examine whether the positive relationship still exists after controlling omitted firm-specific variables. Also, the authors use two-stage least squares estimation to control for the endogeneity problem. To be specific, the authors construct two instrumental variables in the spirit of the government privatization policy, including he fraction of total assets in book value owned by a particular firm to its				

	industry total assets and the fraction of the number of employees in a particular firm to the employed population in the same two-digit industry.
TWO	**Two** key questions
(H) What's New?	Prior studies based on ordinary least squares (OLS) regressions report a positive cross-sectional relationship between state ownership and long-term debt ratios. In other words, it suggests that state ownership per se is the cause of improved access to bank loans. However, the authors concern about the omitted firm-specific variables and the endogenous problem in the prior literature. To overcome these problems, the authors re-examine the relationship by applying the firm fixed-effect, PSM and two-stage least squares estimation.
(I) So What?	Concerning about the mechanical debt reduction or endogeneity problem, the positive relationship suggested by the prior literature will become misleading and biased. In this paper, the authors control both effect. The result shows that the relationship between state ownership and the long-term borrowing of a firm has become weak or even disappeared. The conflicting findings will have additional implications for those market participants, regulators and policy makers.
ONE	**One** bottom line
(J) Contribution?	This paper contributes to the literature by exploring a wide range of alternative explanations for an observed positive association between state ownership and long-term borrowing. After adjusting for the potential impacts of unobservable factors outside and within the firm, particularly the mechanical debt reduction associated with partial privatization, the authors find robust evidence that the positive relationship documented in previous studies cannot survive.
(K) 3 key findings	1. State ownership does not necessarily lead to better access to bank loans in China. 2. Unobservable differences across firms can drive the positive relationship between state ownership and long-term debt ratios. 3. China's partial privatization can drive a positive relationship between state ownership and long-term debt ratios.