TRADE CREDIT AND PRODUCT PRICING: THE ROLE OF IMPLICIT INTEREST RATES

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Abstract
We empirically investigate the proposition that firms charge premia on cash prices in transactions involving trade credit. Using a comprehensive panel dataset on product-level transactions prices and firm characteristics, we relate trade credit issuance to price setting. In a recession characterized by tightened credit conditions, we find that prices increase significantly more on products sold by firms issuing more trade credit, in response to higher opportunity costs of liquidity and counterparty risks. Our results thus demonstrate the importance of trade credit for price setting and show that trade credit issuance induces a channel through which financial conditions affect prices. (JEL: E31, E32, D22, G30, L11)

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