

Department of Economics
2024-2025
Seminar Series



Monday, March 10, 2025
12:30 PM-1:50 PM
SBS, Room N603

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Capital, Ideas, and the Costs of Financial Frictions

Abstract: We study the role of financial frictions in determining the allocation of investment and innovation. Empirically, we find that established firms are investment-intensive when they have low net worth but become innovation-intensive as they accumulate net worth. To interpret these findings, we develop an endogenous growth model with heterogeneous firms and financial frictions. In our model, firms are investment-intensive when they have low net worth because their returns to capital are high. Financial frictions determine the rate at which firms drive down the returns to capital and shift towards innovation. Quantitatively, the aggregate losses due to lower innovation are large, even though the allocation of capital to existing ideas is comparatively efficient. If innovation has positive spillovers, a planner would lower investment among constrained firms to finance more innovation. An innovation subsidy does not generate the correct distribution of investment and innovation to exactly decentralize this outcome.

All in-person seminars will be held in the Social and Behavioral Sciences Building, Room N603. For additional information, contact the seminar organizers: Profs. Chang Liu & Eva Carceles-Poveda. Visit our webpage for additional information: stonybrook.edu/economics.

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