



CENTRO STUDI LUCA D'AGLIANO



**Università Commerciale  
Luigi Bocconi**

Paolo Baffi Centre  
on Central Banking  
and Financial Regulation

# Research Seminar Series on “Global Challenges”

organised by the Paolo Baffi Centre and Centro Studi Luca d’Agliano

## **“The Deep-Pocket Effect of Internal Capital Markets: an Empirical Analysis”**

**Giovanni Pica (University of Salerno, Bocconi University  
and Centro Studi Luca d’Agliano)**

January 12th, 2012, 12.30 p.m.

Department of Labour and Welfare Studies, Seminar Room, 1st floor  
University of Milan, Via Conservatorio 7, 20122 Milan

### **Abstract**

We provide evidence suggesting that incumbent firms' access to group deep pockets has a negative impact on entry in product markets. Relying on a unique French data set on business groups, our paper shows that entry in manufacturing industries is negatively related to the cash reserves hoarded by incumbent-affiliated groups.

In line with theoretical predictions, we find that the impact on entry of group cash holdings is more important in environments where financial constraints are pronounced and in more financially dependent sectors. Our findings suggest that internal capital markets operate within corporate groups and affect the product market behavior of affiliated firms by mitigating financial constraints.



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