

Course Overview: Judicial Uncertainty and Financial Constraints

This course provides an applied introduction to financial constraints faced by firms, with particular attention to the challenges involved in measuring financial frictions and identifying their economic consequences. The course combines insights from empirical corporate finance and law & economics literature, with a strong focus on real-world applications and empirical research.

1. Financial Constraints: Concepts and Measurement

The first part of the course introduces the concept of financial constraints, understood as firms' limited ability to access external finance on reasonable terms. We discuss why financial constraints matter for firm behavior and performance, affecting investment, growth, innovation, and survival.

A key focus is the difficulty of measuring financial constraints, which are inherently unobservable. The course reviews and critically assesses the main empirical approaches used in the literature, including: (i) investment–cash flow sensitivities; (ii) firm-level indices (e.g. KZ, WW, SA indices); (iii) credit ratings and balance-sheet-based proxies; and (iv) natural experiments and policy shocks affecting credit supply.

Students are encouraged to reflect on the strengths and limitations of each method, as well as on issues of identification and external validity.

2. Judicial Institutions, Credit Rights, and Uncertainty

The second part of the course explores the role of judicial institutions in shaping access to finance. Specifically, we examine how the inefficiency of credit rights enforcements — such as long trial durations, weak creditor protection, or uncertainty in judicial outcomes — affects lenders' behavior and increases financing costs for firms.

We discuss how judicial inefficiency generates uncertainty, leading to credit rationing, higher interest rates, and heterogeneous effects across firms, sectors, and territories. Special attention is given to the interaction between local institutional quality and firm-level financial outcomes, as well as to the unintended effects of centrally designed institutional reforms.

3. Applied and Empirical Orientation

The course is strongly empirically oriented. Each topic is introduced through selected empirical papers, presented by the instructor, which use micro-level data and quasi-experimental methods (e.g. difference-in-differences, fixed effects, natural experiments).

Students actively participate in: (i) critical discussions of research design and identification strategies; (ii) interpretation of empirical results and policy implications; (iii) assessment of data choices and institutional settings.

The goal is to help students develop the ability not only to understand empirical research, but also to critically evaluate applied work at the intersection of finance, institutions, and law.

4. Learning Objectives

By the end of the course, students should be able to: (i) understand the economic meaning and relevance of financial constraints; (ii) recognize the main empirical strategies used to measure financial frictions; (iii) analyze how judicial institutions affect credit markets and firm behavior; (iv) critically discuss empirical papers in applied finance and law & economics.