Credit in the economy: small business default correlation and firms co-movements

Propositions
accompanying the doctoral dissertation

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by

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1. Small business risk is predominantly a reflection of firm-specific risk (Chapter 2).
2. Regulation on capital requirements in portfolios of loans to small businesses overstates the riskiness of small business loans relative to other asset classes, i.e. large corporate loans (Chapter 2).
3. Small business defaults increase following a distress in an industry linked along production process (Chapter 3).
4. In an economy with asymmetric inputs and trade credit linkages, idiosyncratic shocks to firms do not average out and can generate firm co-movements (Chapter 4).
5. Financial regulation has profound impact on banks' risk taking behavior but not always in the direction it intended which is of great social and economic relevance.
6. Correlations are not to be confused with causality.
7. On average, each forecast with a 95% confidence interval is wrong in one of twenty cases.
8. Financial forecast is to be interpreted in the context of limitations of the model which produced it.