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Job market in AY 2025-2026

"Dilutive Financing"

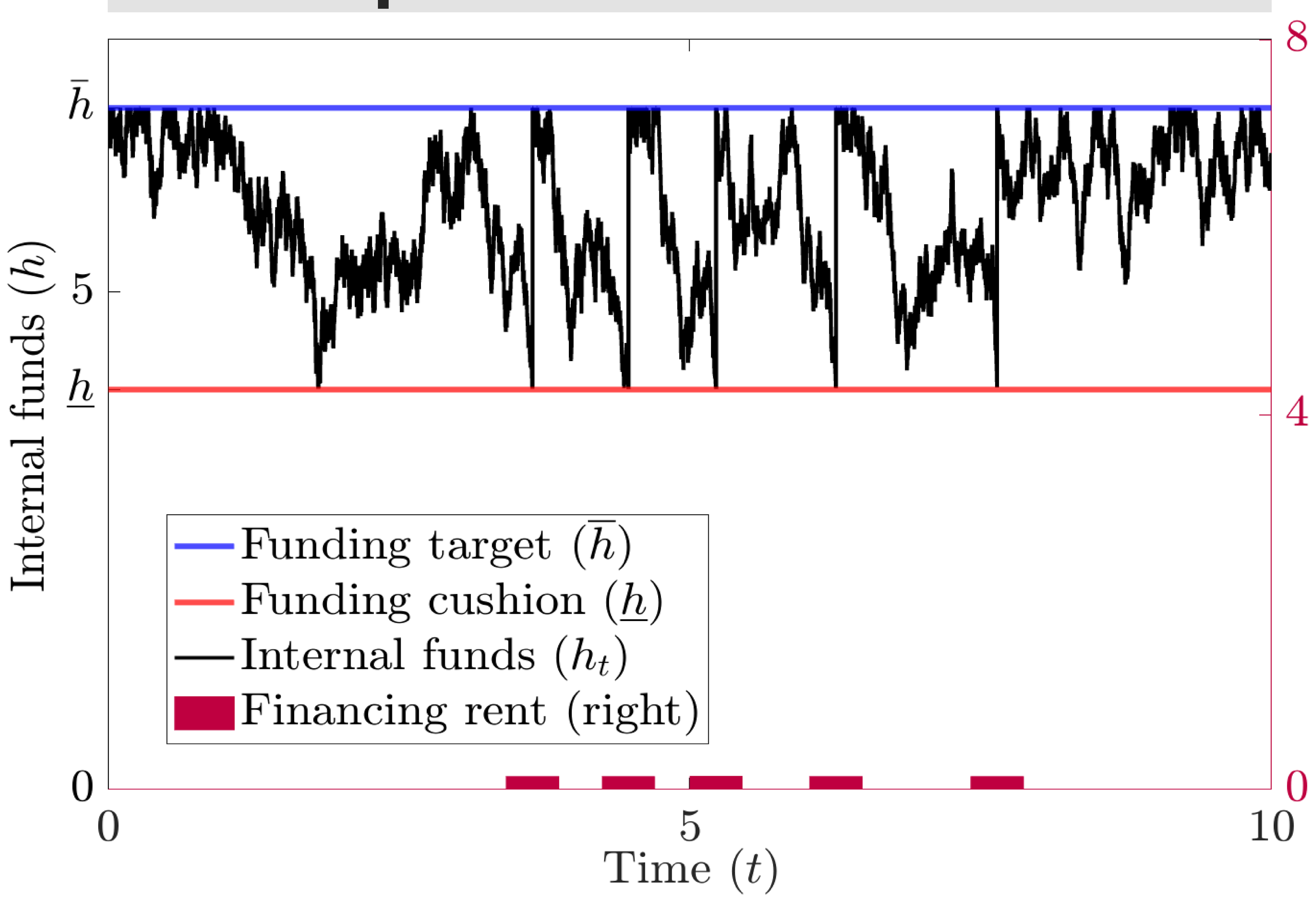
Financial slack* is firms' BARGAINING TOOL against financiers

*'Financial slack': **unused capacity** for cheap **internal funding** (e.g. cash-holdings, room for short-term debt issuance, etc.)

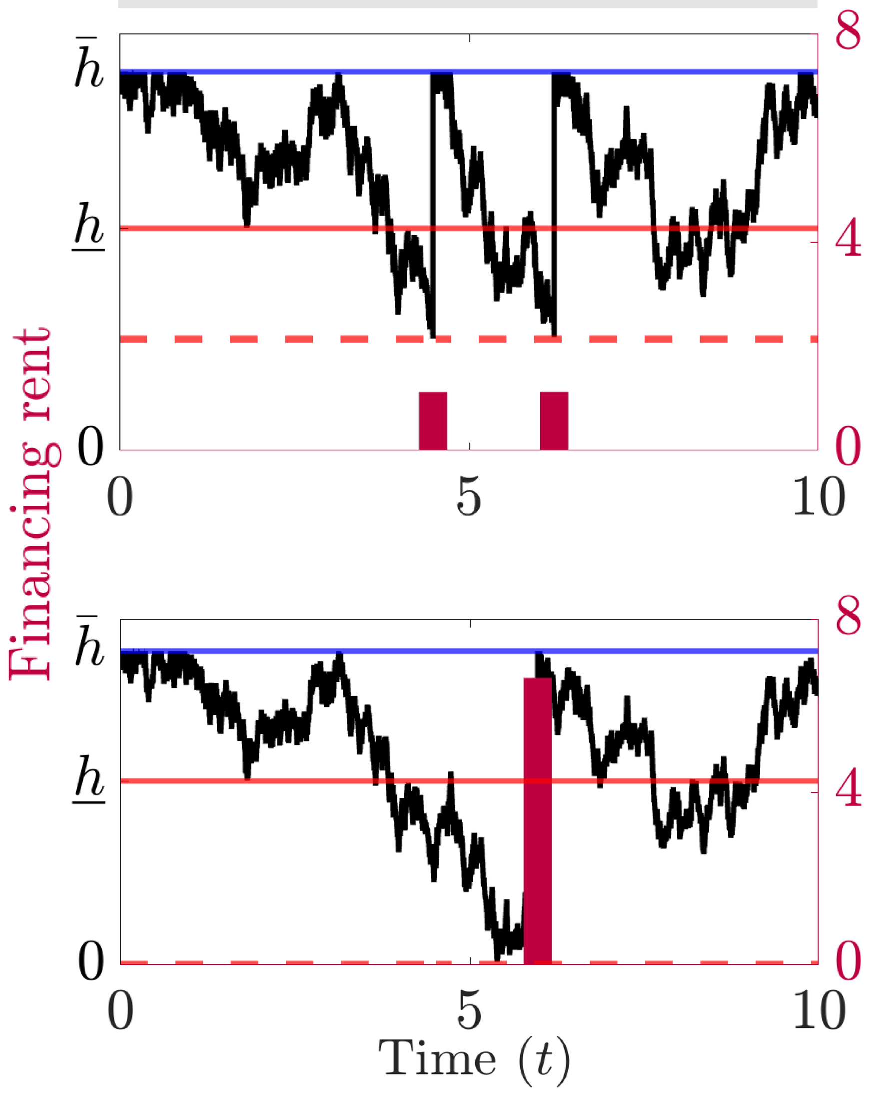
Main Analysis

Only friction : firms raise funds from financiers having **bargaining power**

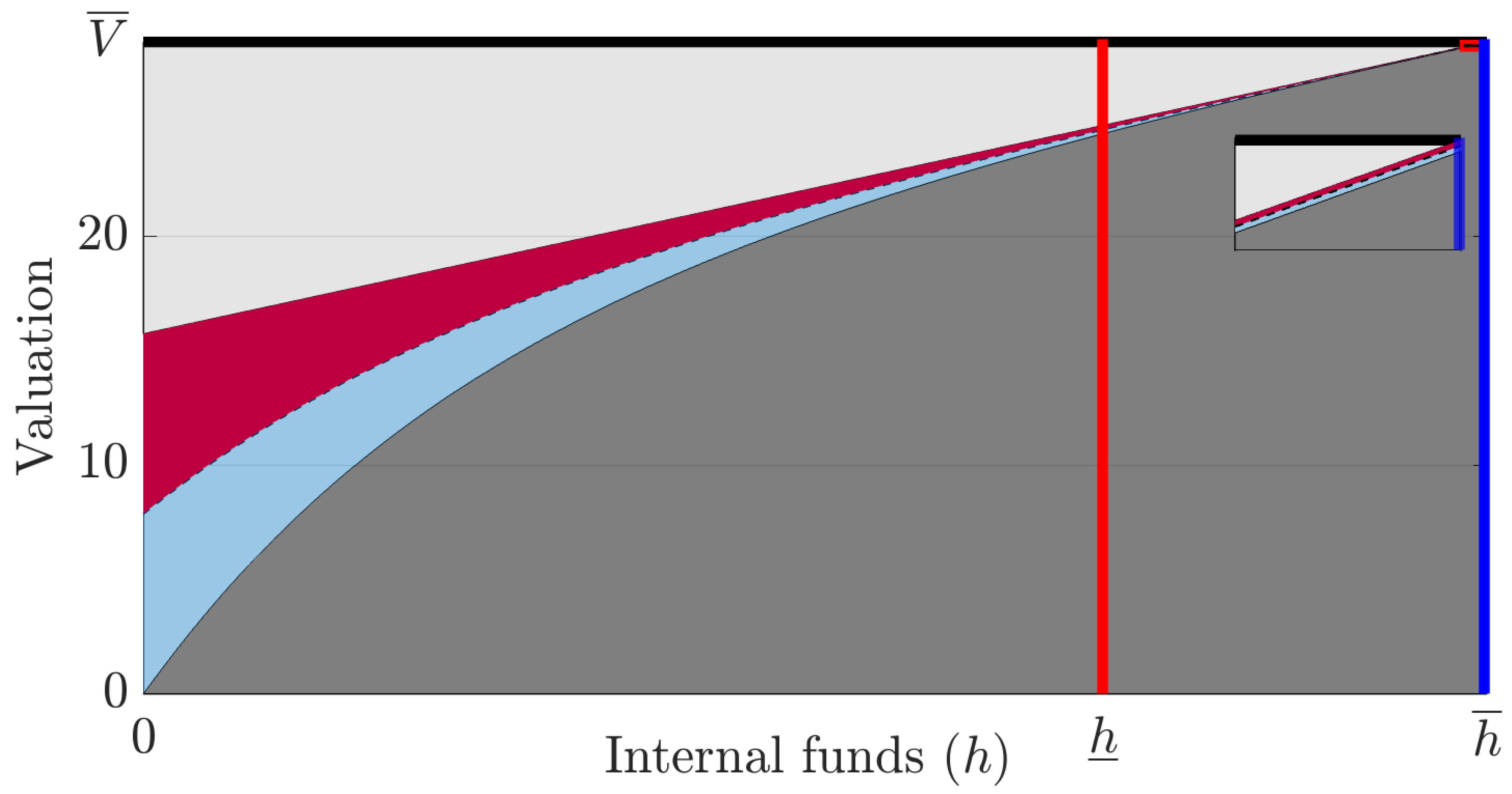
Optimal financial slack



What if...?



How do firms reduce financing rent?



Post-money value
: at target funding capacity

Funds to raise
: to restore funding target

Financing surplus
: split into rent & retention

Outside option
: when bargaining fails

Funding cushion ($\underline{h}$) : Strengthens firms' outside option at bargaining

- Gives firms time (off-path) to find **alternative financiers** before bankruptcy
- Better outside option → Less surplus from financing → Less financiers' rent

Core Mechanism

Simple two-period setup

A project matures at the end, with payoff $\overline{v}$
Requires a unit input per period, $\overline{v} > 2$

- Two outsiders, one per period, can produce
- Nash bargaining splits surplus by $(\theta, 1-\theta)$

Storage of input involves a marginal carry cost β

I. Lumpy financing

How often to bargain with outsiders?

Twice	Period 1	Period 2	Terminal
Social	-1	-1	$\overline{v}$
Equity	$\boldsymbol{\theta(v_0^2-1)}$	$v_0^2 := \theta(\overline{v}-1)$	$\overline{v}$

Once	Period 1	Period 2	Terminal
Social	$-2-\beta$	0	$\overline{v}$
Equity	$\boldsymbol{\theta(\overline{v}-2-\beta)}$	$\boldsymbol{\overline{v}}$	$\overline{v}$

Bargain once, not twice, if $(1-\theta)(\overline{v}-1) \geq \beta$

II. Early financing

Initially endowed with 1 input, **when** to bargain?

Timing	Stock	If it fails?	Value at bargaining
Period 2	0	Lose project	$0+\theta(\overline{v}-0-1) =: v_0^2$
Period 1	1	Bargain later	$v_0^2+\theta(\overline{v}-v_0^2-1-\beta)$

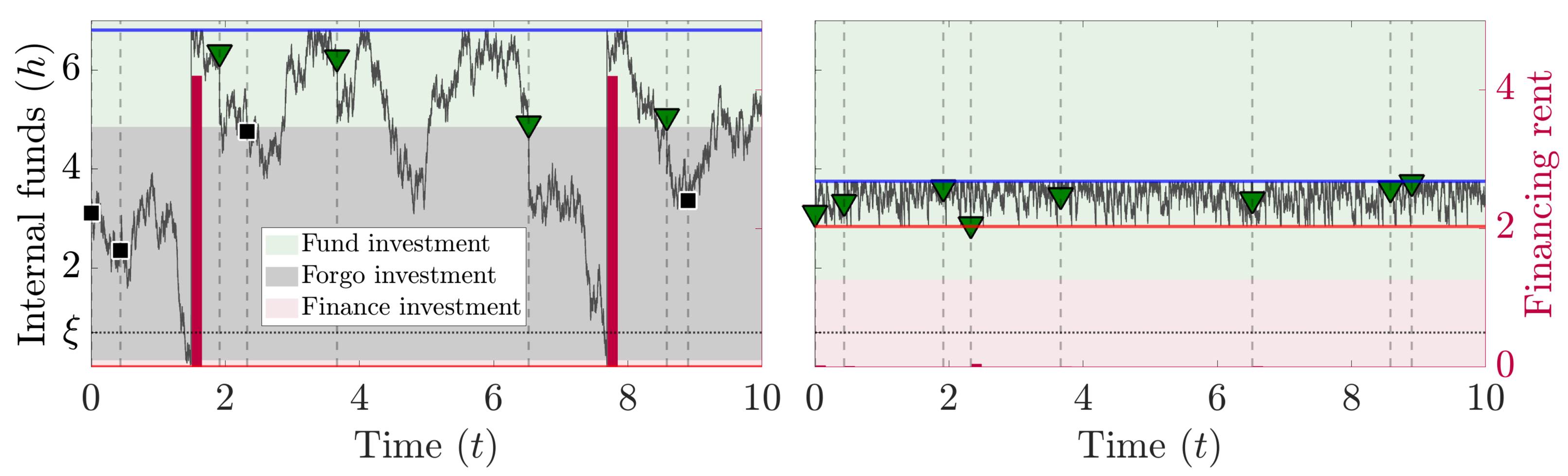
Cushion : outside option ↑ when bargaining **fails**

Bargain early, not late, if $(1-\theta)(v_0^2-0) \geq \theta\beta$

Key Predictions

1. High 'price-earnings' → more **financial slack**
   - **More value is at stake** upon bargaining
2. **Counterintuitive** effect of access to financing

No alternative financiers | *Can find one in two weeks*



- **Robust access** to financing induces funding cushion in **large excess** of *investment needs* ξ