

FIN RESEARCH SEMINAR

Finance Lease and Capital Allocation Efficiency in China

Dr. Kai Li

Date: 13th September 2023

Time: 1:00pm-2:30pm (China Standard)

Location: BS 574

Tencent ID: 477-822-849

Link: <https://meeting.tencent.com/dm/NwYvr1zPzq28>

BIOGRAPHY OF PRESENTER

Dr. Kai Li is currently an Associate Professor of Finance at Peking University HSBC Business School and an Associate Editor of China Economic Quarterly. He received a PhD in economics from Duke University (2013), a master in Economics from Peking University (2007), and a bachelor in finance from Shanghai Jiao Tong University (2004). Before joining HSBC in 2020, Dr. Li was an Assistant Professor of Finance at the Hong Kong University of Science and Technology since 2013.

Dr. Li's research covers Asset Pricing, Macro Finance, Financial Economics, and China Financial Markets. He is a leading scholar in asset pricing implications of financial market frictions, green finance, intangible capital and factor investing, and cross-section of stock returns in Chinese bond market. In addition to a long list of working papers, he has published more than ten papers in top journals, including Journal of Finance, Review of Financial Studies, Journal of Financial Economics, Review of Finance, and Journal of Monetary Economics.

ABSTRACT:

Finance lease is often considered equivalent to secured lending in mainstream finance literature but receives little attention in academic research. In this paper, we argue that the finance lease plays a special role in improving capital allocation efficiency in China, particularly in the context of limited access to bank loans for small and medium-sized enterprises. Using a two-sector general equilibrium model with heterogeneous firms, information asymmetry, and financial frictions, we demonstrate that the presence of a finance lease market increases aggregate total factor productivity by enabling low-productivity state-owned enterprise (SOE) firms to lend effectively to high-productivity privately owned enterprise (POE) firms. We also find that finance lease has become the dominant representation of shadow banking in China. Furthermore, due to its repossession advantage, finance lease is a "good" form of shadow banking as it poses lower systemic risk to the financial system compared to other forms of shadow banking. Our findings have significant policy implications for China's shadow banking regulations.