The Capital Purchase Program’s Effect on Firm Business Dynamics over the Business Cycle

Kevin D. Duncan

October 4, 2019

Abstract

This paper shows the impacts of the Treasury Department’s Capital Purchase Program (CPP) on county business dynamics during the 2008 Financial Crisis was largely non-existent. Under a one sided credit supply shock the CPP should have improved firm entry and employment expansion, and decreased firm exit and employment contraction relative to untreated counties. Utilizing synthetic control methods I estimate the direct and spillover effects of a county receiving CPP funds on county business dynamics in the seven years following treatment. I show that the CPP had marginal impacts on firm entry, but caused moderate improvements in long run firm exit, expansion, and contraction behavior. I further show that there was large heterogeneity in county level responses to receiving CPP funds. These null results are notable due to the preference of policy makers for the CPP to have downstream impacts on ‘Main Street’