



**Determinants of Trade Credit Demand and Supply:
Evidence from Firm-level Panel Data in Taiwan and China**

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ABSTRACT

This study constructs a trade credit supply and demand model to analyze determinants of trade credit. Using a panel analysis for listed firms in Taiwan and China, we examine different hypotheses on the use of trade credit, including transaction costs, discriminatory pricing, adverse selection, and moral hazard. In accounts receivable (supply side of trade credit), firms in Taiwan shows a substitution effect between trade credit and bank credit, while firms in China demonstrates the complementary effect. In accounts payable (demand side of trade credit), firms in both Taiwan and China indicate the substitution effects. Adverse selection and moral hazards in relation to accounts receivables and payables can be compared to the trade-off relationship between the marginal profits and costs. Lastly, we find the correlation between the book value of total assets proxy for price discrimination and net trade credit (NTC) was significantly negative, a result attributable to the rapid firm growth and limited trade credit in small businesses.

Keywords: Trade credit, Net trade credit, Accounts receivable, Accounts payable

JEL: G1, G2, G3
