

A Panel Data Analysis of Interest Rate Risk Management*

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Abstract:

Using a large, hand-collected panel data set of debt structure and interest rate swap usage by non-financial firms over a ten year period, we examine which characteristics are stable in explaining variation in interest rate risk management relative to those that are more transitory, and therefore more likely associated with market timing. We find that previously documented executive compensation results are transitory effects, driven by variation in the term structure, consistent with incentivizing speculation. Average interest rate exposures are partially driven by hedging motivations, but only for high investment firms, consistent with costly external financing affecting derivatives usage.

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