Cover Letter for NBER Entrepreneurship Research Boot Camp

Applicant :

Name : Tolga Caskurlu

Occupation : PhD Finance Candidate (4th Year)

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Advisor:

Name : Prof. Heitor Almeida

Affliation : Professor of Finance, University of Illinois Urbana Champaign

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1 April 2013

To whom it may concern:

I am pleased to have the opportunity to recommend our PhD student Tolga Caskurlu for the NBER research camp on entrepreneurship. He is working on his dissertation under my supervision. I am also the director of the PhD program, so I know him and his work very well. Tolga is one of the best PhD students that we have here in Illinois, and I recommend him without reservations. Tolga also compares favorably with other top PhD students that I have met at the University of Chicago and NYU-Stern. I would not be surprised if he becomes one of the stars in the academic job market once he makes it there. I am confident that he will have a successful academic career.

Since he arrived here in Illinois, Tolga has shown an uncommon enthusiasm for research and displayed clear signs that he will be able to become an independent researcher when the time comes. He already developed several research ideas of his own, some of them directly related to entrepreneurship, while others focus on different areas of corporate finance. In particular, Tolga is interested in corporate bankruptcy procedures and their impact on financial contracting and small business financing. Tolga has compiled a collection of unique datasets on bankruptcy outcomes that he is using for the purposes of identification. He has developed a deep and detailed understanding of US bankruptcy law, a skill which allows him to work successfully in the intersection of law and finance.

In sum, I strongly recommend Tolga for the camp. He is an excellent PhD student who compares favorably with the best students from other top research Universities, and has an uncommon drive to achieve his academic goals.

Please feel free to call me if you have any questions.

Sincerely,

Heitor Vieira de Almeida

Heitor Almeida
Stanley C. and Joan J. Golder Professor of Corporate Finance
Professor of Economics
Director of the Finance Ph.D. Program

Application for NBER Entrepreneurship Research Boot Camp 2013

TOLGA CASKURLU *
University of Illinois Urbana-Champaign

April 1, 2013

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1 Introduction

Two of every three new jobs in U.S are created by small businesses[1]. Despite its importance, however, entrepreneurship has been an understudied area for academicians, mostly due to lack of data. Fortunately, the trend began to change dramatically in the recent years with the availability of detailed private company databases such as KFS Firm Survey, Sageworks, CapitalIQ and Orbis. Using some of these databases, I am currently conducting research on entrepreneurship while I also focus on some other areas of corporate finance including financial intermediation and the intersection of law and finance.

On entrepreneurship, in a joint work with Prof. Almeida and Prof. Bengtsson, we explore the financing channels of newly founded businesses in their first 7 years. For the data, we use the Kauffman Firm Survey (KFS)[2], which collects detailed information about the financials of 4,928 companies, each of which was founded in 2004. In our descriptive study, we find that around half of the financing in the initial year is provided by company founders. Moreover, the founders' supports continue even in the subsequent years. Next, we investigate the correlation between amount of total financing raised and number of founders of a company. The question is interesting in the sense that the sign of the correlation is not obvious. On the one hand, more founders may provide more financing, which would predict a positive correlation. However, on the other hand, an entrepreneur with a great business idea may prefer to keep the company as her own and devote a substantial investment, which would predict a negative correlation. Our results show that as number of founders increase, total financing company raised also increases. Hence, our findings may be interpreted as financing constraints that founders face may be playing a role in the formation process of companies. If the business demands high investment, then entrepreneurs may begin to look for some other founders.

In another paper, we investigate the effects of financial constraints for small businesses in a quasi-natural experiment setting using the KFS data. Our quasi natural experiment is motivated by Robb and Robinson (2012, RFS), who show that bank financing through personal balance sheets of the entrepreneur is an important source of financing for the newly founded firms. We use "Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA)" for exogenous variation of entrepreneurs to access consumer bank loans. BAPCPA was signed into law on April 20, 2005 and brought significant changes to U.S Code sections regarding consumer bankruptcy. Prior to the BAPCPA Amendments, debtors of all incomes could file for bankruptcy under Chapter 7, in which many states have high exemption limits for homestead. However, after the act, if the debtor's income is above the median income amount of the debtor's state, then the debtor can not file Chapter 7 and instead need to file Chapter 13, which requires significant portions of future incomes to be repaid to

[1] `http://www.sba.gov/community/blogs/sba-and-america's-banks-are-increasing-small-business-lending`

[2] During this project period, I worked as a Kauffman Researcher using the KFS in the NORC Data Enclave.

creditors. The effect of the act was swift: 2,039,214 personal bankruptcy filings in 2005 reduced to 597,965 in 2006. Even though the law was in federal domain since states have their own exemption levels, the act had differential effects for entrepreneurs living in different states[3]. This unique aspect of BAPCPA provides us an environment to test our hypothesis in a diff-in-diff framework. Our initial results show that after the act the companies founded in effected states had less entrepreneur's personal financing, decreased investment, R&D and had worse performance in terms of patenting activity.

Besides my research on entrepreneurship, I also work on financial intermediation and law and finance. In my solo paper, I investigate whether uncertainties in bankruptcy procedures shape financial contracting in the U.S. syndicated loan market. Utilizing a novel hand-collected data set, I exploit the application of substantive consolidation procedure in the U.S. bankruptcy courts. This procedure has two unique features that provide an excellent experimental framework. Firstly, it removes seniorities granted in the original contracts, resulting unexpected huge losses on unsecured bank loans. Secondly, there is consensus among practitioners that its application is unpredictable since there is no specific provision in the U.S. Code. I find that after exposure, lenders transmit this shock to other clients as requiring collateral more often in their new loans. Moreover, if exposed lenders issue new unsecured loans, then they demand higher interest rate and tighter covenants, even controlling for bank capitalization, borrower and time fixed effects. To my knowledge, this is the first paper to show that uncertainties in the bankruptcy procedures provide an important friction in the loan market. Furthermore, this work complements the previous literature by providing a new channel for the determinants of optimal financial contracts. Results of this paper are also important for policy makers, who want to ease bank lending standards.

In the future, I am planning to continue my research on entrepreneurship and law and finance. I am planning to create a database that will have all small company litigations including their bankruptcy filings. This database will help us to find answers to many interesting questions. As I have made and I will continue to make research on entrepreneurship, I believe that NBER Boot Camp is a unique opportunity for me to get more insights for my future studies.

References

Robb Alicia M., David T. Robinson, 2012. The Capital Structure Decisions of New Firms, *Review of Financial Studies*, 23, 3700-3737.

[3]Some 2005 homestead exemption limits: California $45,000, Arizona $150,000, Illinois $7,500, Washington $40,000 and Indiana $15,000

TOLGA CASKURLU

CONTACT INFORMATION

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EDUCATION

University of Illinois Urbana Champaign, Champaign, Illinois USA

PhD Candidate, Finance, 2009-Present

Bilkent University, Ankara, TURKEY

M.S., Finance, 2006-2009

Bilkent University, Ankara, TURKEY

B.S., Computer Engineering, 2002-2006

RESEARCH INTERESTS

Empirical Corporate Finance- Financial Contracting, Corporate Restructuring, Financial Intermediation, Capital Structure and Entrepreneurial Finance.

WORKING PAPERS

Does Uncertainties in Bankruptcy Law Affect Optimal Loan Contracts? A Quasi Natural Experiment

WORK IN PROGRESS

How are Small Businesses Financed? Effects of Founders in the Formation Phase.

Do Financial Constraints Affect Investments of Small Businesses? A Quasi Natural Experiment

CONFERENCE PRESENTATIONS

Discussant, Financial Management Association (FMA) Annual Meetings, Denver, USA, 19-22 October, 2011.

Presenter, "Multivariate GARCH Estimation in Different Computational Settings." ***5th International Conference on Computational Management Science***, Imperial College, London, 26-28 March 2008.

Presenter, "Effects of Oral Interventions on the Correlation of Exchange Rates." ***The 28th Annual International Symposium on Forecasting***. Nice, France, June 22-25, 2008.

HONORS AND AWARDS

Research & Teaching Assistantship for the PhD studies, University of Illinois Urbana Champaign, 2009-Present.

University of Illinois, Research Board Award (with Heitor Almeida), 2011

Kauffman Foundation Research Grant (with Heitor Almeida and Ola Bengtsson), 2010.

Conference travel grant by TUBITAK (The Scientific and Technical Research Council of Turkey) for *5th International Conference on Computational Management Science*, Imperial College, London,

26-28 March 2008.

Conference travel grant by Bilkent University FBA for *28th Annual International Symposium on Forecasting*. Nice, France, June 22-25, 2008.

Full scholarship awarded by Bilkent University for graduate study including tuition waiver, accommodation and monthly stipend. (2006)

Scholarship awarded by TUBITAK (The Scientific and Technical Research Council of Turkey) for graduate study. (2006)

Undergraduate Scholarship given by Bilkent University including tuition waiver. (2004)

Ranked in top %0.2 in the nationwide University Entrance Examination out of approximately 1,500,000 examinees.(2002)

Ranked in top %0.05 in the nationwide Science High School Entrance Examination out of approximately 1,000,000 examinees.(1999)

Teaching Experience

University of Illinois Urbana Champaign, Champaign, IL, USA

FIN 221 - Corporate Finance **Fall 2012 & Spring 2013**

Computer Skills

- Statistical Packages: STATA, R, S-Plus, SAS
- Languages: MATLAB, C++, Perl and Pascal.
- Optimization Modeling Languages: AMPL, GAMS.
- Operating Systems: Unix/Linux, Windows.

References

Heitor Almeida
Professor of Finance & Distinguished Chair in Corporate Finance
University of Illinois at Urbana Champaign

Ola Bengtsson
Professor of Finance
Lund University

Murillo Campello
Lewis H. Durland Professor of Finance
Cornell University

Courses Taken in University of Illinois Urbana Champaign (All in PhD Level)

Fall 2009

1) ECON 500- General Microeconomic Theory (Prof. Steven Williams)
2) ECON 501- Quantitative Analysis for Economics (Prof. Daniella Puzzello)
3) ECON 506- Economic Statistics (Prof. Anil K. Bera)
4) FIN 580- Empirical Analysis I (Prof. Prachi Deuskar)
5) FIN 580- Empirical Analysis II (Prof. Prachi Deuskar)

Spring 2010

6) ECON 502- Microeconomic Theory I (Prof. Steven Williams)
7) ECON 507- Econometric Analysis (Prof. Sung Park)
8) FIN 591- Theory of Finance (Prof. George Pennacchi)

Fall 2010

9) ECON 508- Applied Econometrics (Prof. Roger Koenker)
10) FIN 594- Seminar in Corporate Finance (Prof. Heitor Almeida)
11) Individual Study (Prof. Heitor Almeida)

Spring 2011

12) FIN 593- Seminar in Investment (Prof. Tim Johnson)
13) FIN 594- Seminar in Corporate Finance (Prof. Murillo Campello & Prof. Dirk Hackbarth)
14) Individual Study (Prof. Heitor Almeida)