

industries with differentiated product. To this end we use a newly developed panel dataset.

We are well aware of recent criticism raised, among others, by Bresnahan (1989) concerning the problems associated with comparisons of competition among firms operating in different industries. However, following Sutton (1991), we minimize these problems not only by estimating the model only for those firms for which the embodied assumptions are plausible, i.e. firms operating in product differentiated industries, but also by checking the robustness of our conclusions with respect to different firms' strategic behavior.

The remainder of the paper is organized as follows. In Section 2 the optimal intertemporal price strategy of a firm producing a differentiated product is modelled. In choosing a price path, the firm faces both adjustment costs for output and imperfections in the capital market. Also, in order to incorporate oligopolistic interactions in the model, both the direct and the strategic effect of price decisions on output levels are taken into account. Section 3 discusses in details the implications that can be drawn from the model concerning the impact of capital market imperfections on firms' markup policies. For given demand conditions, the crucial parameter turns out to be the degree of tightness of product competition. The economic intuition behind this result is straightforward. Since becoming larger is a way for firms to lessen financing constraints, a monopolistic firm has an obvious incentive to reduce the output price below the unconstrained optimal level in order to raise sales. In oligopoly, however, the direct effect of a price reduction must be compared and contrasted with the strategic effect due to rivals' behavior. In particular, if rival firms do not match the reduction in price, the incentive to cut price for firms facing imperfections in capital markets becomes larger compared to the monopoly case. On the contrary, if rival firms react through a price war, the predictions made for the monopoly case might even be reversed. In Section 4 the characteristics of the dataset used in the empirical investigation are highlighted and the relevant descriptive statistics are commented upon. Section 5 presents the econometric estimates of the model. The main results can be

³ Obviously, this assumption is consistent with the empirical regularity of a lower the cost of debt for large firms relative to small ones.