

**Economics  
Seminar  
Series  
2019**



**SOUTH ASIAN UNIVERSITY  
FACULTY OF ECONOMICS**

***Seminar***

***In the Eye of the Storm:  
Firms and Capital Destruction in India***

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**Date:** October 17, 2019  
(Thursday)  
**Time:** 2:30 p.m.  
**Venue:** Multipurpose Hall, Mezzanine Floor  
Akbar Bhawan, Satya Marg,  
Chanakyapuri, New Delhi

**All are Welcome**

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**ABSTRACT**

This paper examines the response of firms to capital destruction. Using Indian firm sales data and tropical storms as an exogenous shock on firms' capital, we find evidence of creative destruction. Within industry, less productive firms suffer disproportionately more, both along the intensive (firm sales) and extensive (firm exit) margins. The effect found across industries is 33% larger, and indicates that capital destruction leads to a shift in sales towards comparative advantage industries. This build-back better effect is driven by firms active in multiple industries and, to a large extent, by shifts in the firm-level production mix within a firm's active set of industries. Finally, while there is no evidence that firms adjust by investing in new industry lines, firms tend to abandon production in industries that exhibit lower comparative advantage. Our baseline estimates imply that for the top 25% of storms, the median firm's industry sales decrease by at least 2.5%. The exit rate of the median firm increases by at least 2% for the top 25% of storms.