Description
The course will cover recent research exploring the relation between financial factors, firm dynamics, and aggregate fluctuations. It will consider theories and empirical studies that attempt to identify the causal link from financial frictions to firm investment, employment and innovation decisions at the micro-level, and their implications for both aggregate productivity and business cycle fluctuations. A particular emphasis will be placed on the theoretical and empirical analyses of the recent financial crisis and global recession of 2007-2009.

The objective of the course is twofold: first, to analyse the extent to which recent theories are successful in explaining the empirical evidence, and which relevant questions remain unanswered; second, to illustrate the building blocks of a theoretical framework able to address such questions.

Course structure:
Lecture 1) Finance and firm dynamics: the facts
Empirical evidence: from firm level financial frictions to the financial accelerator.

Lecture 2) Entry, exit, and the aggregate implications of firm level financial frictions
Lecture 3) Finance, innovation, and productivity growth
Financial factors and firm dynamics: entry, exit and the long run investment decisions of the firm (internationalization, innovation). How financial factors affect differently the intensive and extensive margins, and what are their aggregate implications.

Lecture 4) Credit, banking and business cycles: the basic framework
Heterogeneous firms, heterogeneous projects and bank runs.

Lecture 5) Finance, firm dynamics and the business cycle: theory and applications to the 2007-2009 recession
Apply the theory to the 2007-2009 financial crisis.
References

Lecture notes will also be provided before each class.

1) Finance and firm dynamics: the facts

Main Papers


Other Papers

• Fazzari, Steven M., R. Glenn Hubbard, and Bruce C. Petersen, 1988, Financing constraints and corporate investment, Brookings Papers on Economic Activity.

2) Entry, exit, and the aggregate implications of firm level financial frictions.

Main Papers


Other Papers

• Manova, K., 2013, Credit Constraints, Heterogeneous Firms, and International Trade, Review of Economic Studies 80, p.711-744.
3) Finance, innovation, and productivity growth

Main Papers


Other papers

• Daron Acemoglu, Ufuk Akcigit, Murat Alp Celik, 2014, Young, Restless and Creative: Openness to Disruption and Creative Innovations, NBER Working Paper No. 19894

4) Credit cycles: the basic framework

Main Papers

• Mark Gertler, Nobuhiro Kiyotaki, 2013, Banking, Liquidity and Bank Runs in an Infinite-Horizon Economy, NBER Working Paper No. 19129

Other Papers

5) Finance, firm dynamics and the business cycle: theory and applications to the 2007-2009 recession

Main Papers

• Jermann, Urban J. and Quadrini, Vincenzo, Macroeconomic Effects of Financial Shocks, American Economic Review: Vol. 102 No. 1 (February 2012)

Other Papers

• Veronica Guerrieri, Guido Lorenzoni, Credit Crises, Precautionary Savings, and the Liquidity Trap, NBER Working Paper No. 17583