Overview and Objectives

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. Applications include financial shocks and the 2007-2009 recession, and firm dynamics and the secular stagnation hypothesis.

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 Outline

1. Finance and firm dynamics: the facts.
   a. Empirical evidence: from firm level financial frictions to the financial accelerator

2. Entry, exit, and the aggregate implications of firm level financial frictions.
   a. Financial frictions, misallocation, and aggregate productivity

3. Finance, innovation, and productivity growth
   a. Firm dynamics, technology adoption and innovation, and how they affect firms growth and aggregate productivity

4. Credit, banking and business cycles: the basic framework
   a. Credit cycles
   b. Heterogeneous firms, heterogeneous projects and bank runs
5. **Finance, firm dynamics and the business cycle: theory and applications**
   
   a. Apply the theory to the 2007-2009 financial crisis
   
   b. Finance, firm dynamics and secular stagnation

**Required Activities**

Lecture notes will be provided before each class. Below, references are separately listed for each topic. References denoted with * are the most relevant ones, and having a look at them in advance might be useful to better follow the lectures.

**List of References**

1) **Finance and firm dynamics: the facts**

**Main Papers**


**Other Papers**

- Farre-Mensa, Joan, and Alexander Ljungqvist. "Do Measures of

• 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


4) Credit, banking and business cycles: The basic framework

Main Papers


Other Papers

- Kiminori Matsuyama, Credit Traps and Credit Cycles," American Economic Review, 97, March 2007, 503-516

5) Finance, firm dynamics and the business cycle: theory and applications.

Main Papers


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

Other Papers


