External Financing and the Role of Financial Frictions over the Business Cycle: Measurement and Theory

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Highlights

- We study financial shocks that disrupt firms' access to external funds over the business cycle.
- In the data, privately held firms use more external funds than publicly traded companies.
- We confront a financial frictions model with our evidence on firms? use of external funds.
- In our calibrated model, financial shocks generate only modest declines in economic activity.