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Evidence from the great recession

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Financing Constraints and Unemployment: Evidence from the Great Recession

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Abstract

This paper shows that financing constraints of small firms were one of the drivers of unemployment dynamics during the 2007-09 recession in the United States. Specifically, workers in small firms were more likely to become unemployed during the 2007-09 recession than comparable workers in large firms, but only if they were employed in industries with high financing needs. We find very similar results for the 1990-91 recession, but not for the 2001 recession, where only the former was associated with a reduction in loan supply. The findings support the credit constraints hypothesis and underscore the role of bank lending in explaining labor market activity.

Keywords: Great Recession, Firm Size, Financial Dependence, Unemployment

JEL codes: E24, E32, E44, G21, J64.

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