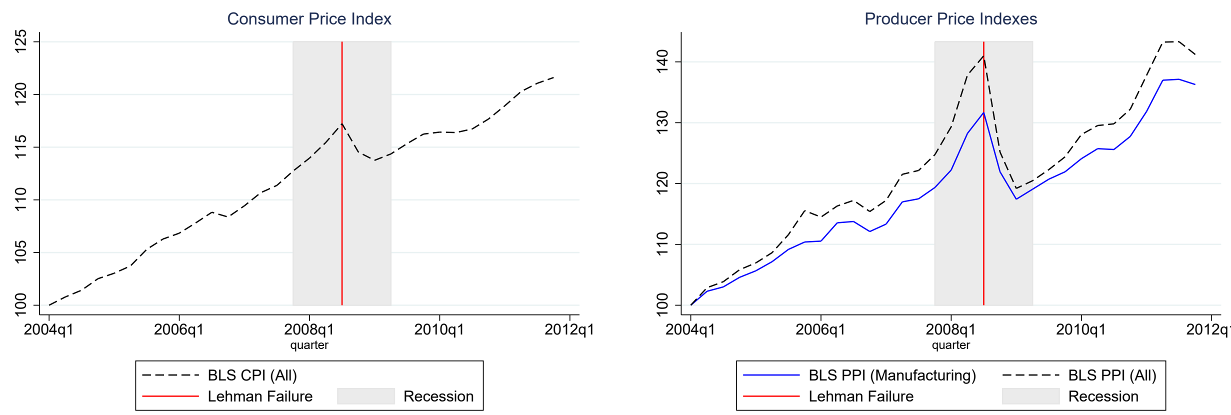
the quality part shows an economically large effect of the negative credit supply shock on product quality. Although the effect is not statistically significant at the conventional level, such a decrease in product quality counteracts the decrease in prices, which leads to a modest increase in the market share.

S3 Aggregate Price Indexes

This section presents the aggregate consumer, producer, manufacturing, and scanner price indexes in the middle of financial panic.

Figure S.5 plots the aggregate consumer and producer price indexes. As one can see, regardless of using different price indexes, the aggregate price index fell in the middle of financial panic. The decrease in the aggregate price indexes in the middle of financial panic was followed by a rise in the aggregate price index, which is consistent with the inventory adjustment hypothesis.

Figure S.5: Aggregate Price Indexes after the Lehman Failure



(a) Consumer price index

(b) Producer price indexes

Note. (a) plots the BLS aggregate consumer price index, and (b) plots the BLS aggregate producer price index and the producer price index for manufacturing sectors only. All the series are downloaded from the FRED Economic Data.

Of course, there are other reasons behind the movement in the aggregate price dynamics in this period in addition to the inventory adjustment hypothesis proposed in this article, such as the movement in aggregate demand conditions, uncertainty, international trade, and oil and commodity prices. In particular, there was a large decrease in oil and commodity prices at the same time. Given that the manufacturing price index fell dramatically simultaneously, the mechanical inclusion of oil/commodity price indexes cannot entirely explain the change in the aggregate PPI. However, such a change in the oil/commodity price indexes would likely pass-through to other indexes and generate a movement in the aggregate price dynamics. Other changes in the aggregate conditions, such as the aggregate demand changes, can potentially affect the aggregate inflation in this period. To isolate the effect of the credit supply shock on the output price dynamics, in the main body of the article, I use the micro-level data and utilize both cross-sectional variation and time-series variation.