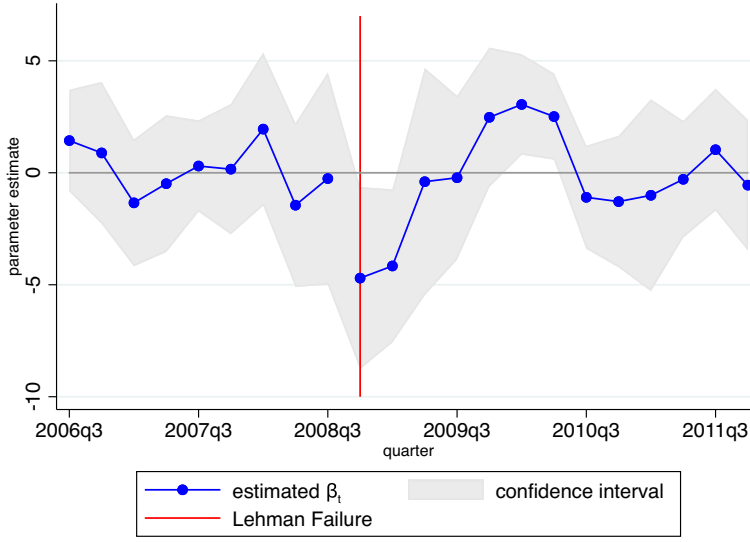

FIGURE III

Price Dynamics and Credit Market Disruptions

This figure is based on equation (7), and the measure of the Lehman exposure is directly used as a reduced form. The parameter estimates ($\hat{\beta}_t$) for each quarter are plotted. A 95% confidence interval is reported for each estimated coefficient, standard errors are clustered by firm and product group, and the regression is weighted by initial sales. The firm-level controls are the firm's listed status, four-digit NAICS fixed effects, age, bond rating, the number of loans, the amount of loans, the loan type, loan-year fixed effects, multi-lead fixed effects, the number of loans due in the post-Lehman period fixed effects, loan spread, and loan maturity.

which suggests that the effect should be temporary. I discuss this hypothesis in detail in the next section.

IV. MECHANISM: FIRE SALE OF INVENTORY

IV.A. Inventory, Market Share, Liquidity, and Employment

The result in the previous section seems to be counterintuitive, as most studies interpret financial distress as an increase in credit cost and therefore predict an increase in output prices due to a negative credit supply shock.[26]

26. The publications that emphasize the effect of financial cost on output price include Barth and Ramey (2002), Del Negro, Giannoni, and Schorfheide (2015), and Christiano, Eichenbaum, and Trabandt (2015). Other mechanisms are discussed in the literature. For example, Gilchrist et al. (2017) places more emphasis on