TABLE VII
THE EFFECT OF CORPORATE LIQUIDITY ON OUTPUT PRICES

| | $\Delta \ln P_{fg}$: 2006q4–2007q2 to 2008q4–2009q2 | | | |
|---|---|---|---|---|
| | Including $X_f$ related to | | | |
| | Gilchrist et al. (2017) | | Bates, Kahle, and Stulz (2009) | |
| | (1) | (2) | (3) | (4) |
| 2006 $LIQ_f$ | −2.84** | −2.17* | 0.43 | 0.04 |
| | (1.40) | (1.21) | (2.14) | (2.16) |
| $(-\Delta L_f)$ | | −1.99** | | −3.37** |
| | | (0.94) | | (1.40) |
| 2006 CF volatility | | | −2.20** | −2.15*** |
| | | | (0.93) | (0.79) |
| Observations | 947 | 947 | 947 | 947 |

*Notes.* $^{*}p < .10$, $^{**}p < .05$, $^{***}p < .01$; the standard errors are clustered by firm and product group, and the regression is weighted by initial sales. 2006 $LIQ_f$ is the cash to assets in 2006, and 2006 CF volatility is defined as the standard deviation of cash flow to assets for the past 10 years. The set of firm-level controls related to Gilchrist et al. (2017) are the firm-level 2006 inventory to sales, the 2004–2006 change in market share at the firm-group-level, and the 2004–2006 change in the number of employees. The set of firm-level controls related to Bates, Kahle, and Stulz (2009) are the 2006 capital expenditure to assets, 2006 acquisitions to assets, and 2006 debt to assets. Across all specifications, the quality-adjusted utility-based price index is used, and the lagged dependent variable is included, similar to what had been done in Gilchrist et al. (2017), who use the quality-adjusted price index and control for the lagged industry-level inflation. All reported variables are normalized to have a unit variance to facilitate the comparison of coefficients.

in this article relative to the previous study is the measure of financial constraint, not the sample or regression specifications.[35]

However, the effect of corporate liquidity is sensitive to the inclusion of other proxies of financial constraint, especially cash flow volatility. Since Bates, Kahle, and Stulz (2009) document the correlation between liquidity and other variables, which might confound the effect of liquidity on output price, column (3) considers an alternative set of control variables: initial cash flow volatility, capital expenditure to assets, acquisitions to assets, and debt to assets. In this specification, the coefficient of liquidity changes sign and loses the conventional level of statistical significance. In particular, the results suggest that the firms faced with larger cash flow volatility happened to hold more liquidity initially, and during the financial panic, they lowered their output prices; the cash flow volatility negatively affects price and takes over the

35. In addition, as shown in Online Appendix S6.H, the main result in this article is robust to using only listed firms under my preferred specification. Note that the timing of the event cannot explain the difference between the two studies. Consistent with this article, Gilchrist et al. (2017) focus on the period of Lehman Brothers' failure as shown in their figures and tables.