TABLE V

FIRE SALE OF INVENTORY HYPOTHESIS: EMPIRICAL SUPPORT

Y_{fg}	Inventory$_f$ (1)	Market Share$_{fg}$ (2)	Cash Holding$_f$ (3)	Employment$_f$ (4)
$(-\Delta L_f)$ instrumented	-30.1^{**}	2.4^{**}	5.6^{***}	-23.5^{**}
using Lehman	(13.4)	(1.2)	(1.8)	(10.9)
Firm-level controls	Yes	Yes	Yes	Yes
Product group FE	No	Yes	No	No
First-stage F-statistic	32.7	17.8	67.1	26.5
$E[\Delta \ln Y:(-\Delta L_{p90})–(-\Delta L_{p10})]$	−51.8	5.25	11.3	−38.2
Observations	992	1,658	1,286	1,453

Notes. $^{*}p < .10$, $^{**}p < .05$, $^{***}p < .01$. For the firm-level regressions in columns (1), (3), and (4), the standard errors are clustered by the three-digit NAICS, the regression is weighted by initial Y_f, and the firm-level controls are a firm's listed status, two-digit NAICS fixed effects, number of loans, multi-lead fixed effects, loan spread, number of loans due in the post-Lehman period fixed effects, and bond rating. For the firm-group-level regression in column (2), the cluster groups of standard errors, regression weights, and control variables are identical to the specification used in Table IV.

their inventories.[30] Such firms increase their market share, which suggests that they generate extra sales from the product market by selling off their inventory. Such firms accumulate more cash, which implies that they convert inventories (illiquid assets) to cash (liquid assets). These firms lay off workers, an action that is a well-known result in the literature.

Table V clearly shows the importance of inventory in generating an output price fall due to the adverse credit supply shock. If one thinks of employment as a proxy for production, then the firms that face a negative credit supply shock decrease their production based on column (4).[31] Without inventories, such firms that reduce their production would not have enough products to supply the market and would probably increase their output prices at the equilibrium. This reaction of firms is a conventional shift in the supply curve effect that leads to a rise in output prices. However, with inventories, such firms still increase their market share or sales (column (2)), because they draw down their inventories (column (1)) to provide an additional supply of products and accumulate cash (column (3)) from the product market. Inventory plays

30. In Online Appendix S5, I analyze with Compustat data the part of the inventory that is affected by the credit supply shock. The effect on inventory mainly comes from the final-good inventory and raw materials inventory.

31. Measuring production as sales minus inventory and regressing this measure on the credit supply shock similarly shows that the firms that face a negative credit supply shock decrease their production.