TABLE IX

TREATMENT INTERACTION: BANK SHOCK AND CORPORATE LIQUIDITY

| | $\Delta \ln \tilde{P}_{fg}$: 2006q4–2007q2 to 2008q4–2009q2 | | | |
|---|---|---|---|---|
| | Negative bank shock measured with | | | |
| | $(-\Delta L_f)$ (1) | Lehman (2) | ABX (3) | (−BankItem) (4) |
| Negative bank shock × $\text{LIQ}_f$ | 1.14*** | 5.10*** | 2.28** | 0.63*** |
| | (0.31) | (0.65) | (1.14) | (0.10) |
| Negative bank shock | −12.85** | −18.69*** | −19.27** | −9.73*** |
| | (5.99) | (2.42) | (9.20) | (1.40) |
| Firm-level controls | Yes | Yes | Yes | Yes |
| Product group FE | Yes | Yes | Yes | Yes |
| Observations | 832 | 832 | 832 | 832 |

*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. The firm-level controls are the firm's listed status, four-digit NAICS fixed effects, age, size, bond rating, number of loans, amount of loans, loan type, loan-year fixed effects, multi-lead fixed effects, number of loans due in the post-Lehman period fixed effects, loan spread, and loan maturity. The Lehman exposure, ABX securities exposure, and bank items are used as direct measures of the bank shock. Similar to my treatment of the main leave-one-out credit supply shock measure, for consistency, I change the sign of the bank items. All four bank shock measures are standardized to have a unit variance. The 2006 cash to assets variable in percentage points is used to ease the interpretation.

effect is smaller when firms have more initial liquidity. An increase by 1 percentage point of the 2006 cash to assets ratio mitigates the effect of the bank shock by approximately 1.14%. The qualitative result is robust to using three alternative measures of bank shocks, as shown in columns (2)–(4) of the same table. This result also clarifies how the main results in this article are related to the results in Gilchrist et al. (2017). The unconditional effect of initial corporate liquidity on output prices might be negative, as in Table VII, because financially constrained firms prefer to hold more initial liquidity and lower their output prices and inventory stock relative to their counterparts. However, conditioning on the negative bank shock, as shown in Table IX, the effect of liquidity on the output price is positive, because more initial liquidity can ironically benefit firms in alleviating the external financial stress in the middle of a financial crisis. These results are consistent with the interpretation that financially constrained firms decrease their output prices.[39]

39. Another way to modify equation (10) to address the endogeneity concern is to include more control variables, which are likely to correlate with the 2006 liquidity and simultaneously affect the output price during the Great Recession.