Title: Expectations and Behavior of Firms in Response to the COVID-19 Pandemic

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Abstract: In March 2020, the German government implemented measures in response to the COVID-19 pandemic that effectively led to a shutdown of a significant share of the economy. We study how firms adjusted to the ensuing crisis along different margins, including decisions on employment and investments, and which factors can explain the heterogeneity in these adjustments. In particular, we investigate which role firms’ expectations about the duration of the lockdown play for their mitigation strategies. The suddenness of the initial shock and the fact that those expectations about the duration are largely unrelated to firm characteristics allows us to draw conclusions about the effect of expectations on firm behavior.

Data: Panel based on the monthly ifo Business Survey covering approximately 9,000 German firms. From March 2020 onwards, special questions on the impact of the COVID-19 pandemic as well as firms’ mitigation strategies were added to the survey.

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