CREDIT AND FIRM-LEVEL VOLATILITY OF EMPLOYMENT

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Abstract
We study a firm dynamics model where access to credit improves the bargaining position of firms with workers and increases the incentive to hire. To evaluate the importance of the bargaining channel for the hiring decisions of firms, we estimate the model structurally using data from Compustat and Capital IQ. We find that the bargaining channel explains 13% of firm-level employment volatility. We also evaluate the relative contribution of credit and revenue shocks for firm-level employment fluctuations and find that credit shocks account for 22%. (JEL: D25, G32, J30)

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