

A Computational Approach to Liquidity-Constrained Firms over an Infinite Horizon

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This paper examines the behavior of liquidity-constrained firms in a time-series. It illustrates that cash-shortage expectations induce a firm to hold liquid assets, which reveal a nonlinear relationship with the degree of financing constraints. This nonlinearity provides Fazzari, Hubbard, and Petersen (1988, 2000), rather than Kaplan and Zingales (1997, 2000), with theoretical characterization. This paper also argues that financial constraints could create serial correlation in a firm's internal funds even if exogenous shocks last for a single period of time.

References

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