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# What Happened: Financial Factors in the Great Recession

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### Article Information

#### Abstract

At the onset of the recent global financial crisis, the workhorse macroeconomic models assumed frictionless financial markets. These frameworks were thus not able to anticipate the crisis, nor to analyze how the disruption of credit markets changed what initially appeared like a mild downturn into the Great Recession. Since that time, an

explosion of both theoretical and empirical research has investigated how the financial crisis unfolded, how it was transmitted to the real sector. The goal of this paper is to provide a complete description of the Great Recession must take account of the financial distress facing both households and banks and, as the crisis unfolded, nonfinancial firms as well. Exploiting both panel data and

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time series methods, we analyze the contribution of the house price decline, versus the banking distress indicator, to the overall decline in employment during the Great Recession. We confirm a common finding in the literature that the household balance sheet channel is important for regional variation in employment. However, we also find that the disruption in banking was central to the overall employment contraction.

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## Citation

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## Additional Materials

[Replication Package \(1.82 MB\)](#)

[Supplemental Appendix \(377.97 KB\)](#)

[Author Disclosure Statement\(s\) \(58.38 KB\)](#)

[Public \(Legacy\) Comment \(posted on 8/7/2018\)](#)

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## JEL Classification

**E23** Macroeconomics: Production

**E24** Employment; Unemployment; Wages; Intergenerational Income Distribution; Aggregate Human Capital; Aggregate Labor Productivity

**E32** Business Fluctuations; Cycles

**E44** Financial Markets and the Macroeconomy

**G01** Financial Crises

**G21** Banks; Depository Institutions; Micro Finance Institutions; Mortgages

**R31** Housing Supply and Markets

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