

[Working Papers](#)

Financial Policies and the Financial Crisis: How Important Was the Systemic Credit Contraction for Industrial Corporations?

Kathleen M. Kahle & René M. Stulz

SHARE   

WORKING PAPER 16310

DOI 10.3386/w16310

ISSUE DATE August 2010

Although firm financial policies were affected by a credit contraction during the recent financial crisis, the impact of increased uncertainty and decreased growth opportunities was stronger than that of the credit contraction per se. From the start of the financial crisis (third quarter of 2007) to its peak (first quarter of 2009), both large and investment-grade non-financial firms show no evidence of suffering from an exceptional systemic credit contraction. Instead of decreasing their cash holdings as would be expected with a

temporarily impaired credit supply, these firms increase their cash holdings sharply (by 17.8% in the case of investment-grade firms) after the fall of Lehman. Though small and unrated firms have exceptionally low net debt issuance at the peak of the crisis, their net debt issuance in the first year of the crisis is no different from the last year of the credit boom. In contrast, however, the net equity issuance of small and unrated firms is low throughout 2008, whereas an impaired credit supply by itself would have encouraged

firms to increase their equity issuance. On average, the cumulative financing impact of the decrease in net equity issuance from the start to the peak of the crisis is approximately twice the cumulative impact of the decrease in net debt issuance. The decrease in net equity issuance and the increase in cash holdings are also economically important for firms with no debt.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Related

TOPICS

Macroeconomics
Consumption and Investment
Business Cycles
Monetary Policy
Financial Economics
Corporate Finance
History
Macroeconomic History

PROGRAMS

Corporate Finance

WORKING GROUPS

Innovation Policy
Market Design

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



16th Annual Martin Feldstein Lecture:

Lessons for Economists from the Pandemic

Cecilia E. Rouse, The Brookings Institution
and Princeton University
July 22, 2024

2024, 16th Annual Feldstein Lecture, Cecilia E. Rouse, "Lessons for Economists from the Pandemic"

FELDSTEIN LECTURE

PRESENTER: [CECILIA E. ROUSE](#)

Cecilia Rouse, president of the Brookings Institution and a professor at Princeton University, who chaired the Council...



Methods Lectures, Summer Institute 2024:

Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning

Susan Athey, Stanford University and NBER
July 25, 2024

2024 Methods Lecture, Susan Athey, "Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning"

METHODS LECTURES

PRESENTER: [SUSAN ATHEY](#)

Background Materials: [backgroundAthey](#), Susan, Undral Byambadalai, Vitor Hadad, Sanath Kumar Krishnamurthy, Weiwen Leung...



Economics of Social Security Panel Discussion

Earnings Inequality and Payroll Tax Revenues

Karen Dynan, Harvard University
Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Fatih Guvenen, University of Minnesota and NBER
James Pearce, US Congressional Budget Office
NBER Summer Institute, July 24, 2024

2024, Economics of Social Security Panel, "Earnings Inequality and Payroll Tax Revenues"

National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue
Cambridge, MA 02138
[617-868-3900](tel:617-868-3900)
info@nber.org
webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW

