where $\beta_i = b_i - \delta_i$. Consider the ratio of firm i's accounts payable to its wage costs. This ratio is proportional to

$$\frac{a_{i+1}p_{i+1}}{w_i} \tag{26}$$

Similarly, the ratio of firm i's accounts receivable to its wage cost is proportional to

$$\frac{a_{i+1}p_{i+1}}{w_i} + \beta_i \tag{27}$$

Now, consider the following comparative statics exercise. Fix the production chain upstream from firm i, hence fixing its accounts payable. Then, both (26) and (27) are increasing as w_i becomes small. For two firms at similar positions in their respective production chains, the firm with smaller w_i has larger accounts receivable and payable relative to its real activity, as measured by its wage costs. To the extent that the total assets of a firm also correspond to a measure of the size of a firm's real economic activity, our model can shed light on the greater receivables to assets ratio of Japanese firms. At the level of the production chain as a whole, the production chain that consists of many layers of intermediate goods producing firms will have larger balance sheets for any given size of real economic activity. Our model therefore has features that are consistent with the evidence on larger fraction of accounts receivable in the assets of Japanese firms.

We now turn to the *net* accounts receivable of firms. Net accounts receivable represents the stake held by each individual firm in the production chain as a whole. From (25) above, we have

$$\begin{aligned} \frac{\text{net receivable}}{\text{wage cost}} &= \frac{a_i p_i - a_{i+1}p_{i+1}}{w_i} \\ &= \beta_i \end{aligned}$$

The variable β_i was defined earlier in our paper in equation (16) and is given