

reductions being larger for banks with weaker balance sheets. Similarly, [Gan \(2007\)](#) finds that following the burst of the real estate bubble, Japanese banks with greater real estate exposure had to reduce lending. Gan also documents the real effects of this credit restriction: in her sample, firms' investment and market valuation are negatively associated with their top lender's real estate exposure. This can lead to effects that are quite large economically: in the context of the Japanese depression, the lending channel accounts for one fifth of the decline in investment.

The corporate finance literature has mostly tried to reject the neoclassical theory of investment, by showing that financing factors affect investment decisions. A first deviation comes from the fact that capital expenditures react positively to exogenous shocks to cash flows. Most notably, [Lamont \(1997\)](#) shows that following a sharp decrease in oil prices, the non-oil division of oil conglomerates cut their investment. [Bakke and Whited \(2011\)](#) use a regression discontinuity design that exploits the mandatory contributions to defined benefit plans and find that firms with large cash outflows cut down R&D, working capital and employment. In a small sample, [Blanchard, de Silanes, and Shleifer \(1994\)](#) report that firms' acquisition activity responds to large cash windfalls coming from legal settlements unrelated to their ongoing lines of business. Another strand of the empirical literature focuses on the collateral value. For example, [Benmelech, Garmaise, and Moskowitz \(2005\)](#) show that commercial property loans have lower interest rate, larger loan-to-value ratio and longer maturities and durations if the property has fewer zoning restrictions. That is, the properties that are more redeployable and hence have higher market liquidity are superior collateral assets.

Any good survey must have a clear focus. This *survey's focus* is on the macroeconomic implications of financial frictions. This also explains its structure: Persistence, amplification, instability in [Section 2](#) is followed by credit quantity constraints through margins in [Section 3](#). The demand for liquid assets is analyzed in [Section 4](#) and the role of financial intermediation is studied in [Section 5](#). Due to its emphasis on liquidity, the role of money as store of value shines through the whole survey. Given the survey's focus, we do not cover many important papers that microfound various financial constraints mentioned above. This survey does also not cover the vast corporate finance literature on how financial frictions shape the capital structure and maturity structure of firms and financial institutions. Moreover, this survey excludes behavioral models. We do so despite the fact that we think the departure from the rational expectations paradigm is important. An exception are models with unanticipated zero probability shocks, in which – strictly speaking – agents hold non-rational beliefs. The survey also