

Working Capital, Trade and Macro Fluctuations*

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Abstract

In addressing the precipitous drop in trade volumes in the recent crisis, the real and financial explanations have sometimes been juxtaposed as competing explanations. However, they can be reconciled by appeal to the time dimension of production and the working capital demands associated with offshoring and vertical specialization of production. We explore a model of manufacturing production chains with offshoring where firms choose their time profile of production and where inventories, accounts receivable, and productivity are procyclical and track financial conditions.

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