1 Introduction

Production takes time, especially when conducted through long production chains. Working capital is the financing that a firm needs to deal with the mismatch between incurring costs and receiving payment from sales. In this paper we revisit the issue of the time accounting of firms' working capital in a bid to understand better the role of financial conditions on macro fluctuations and in trade.

A useful perspective in understanding working capital is from the simplified balance sheet of a firm, as depicted in (1). When the firm has several production stages, inventories include the intermediate goods that will ultimately lead to sales, and inventories enter as assets on the firm's balance sheet. The longer is the production process, the larger are the inventories on the firm's balance sheet, and the greater is the funding need for the firm. If the production chain crosses the boundary of the firm, then the firm will keep score on the (as yet unrealized) future cash flows by entering the accounts receivables from their customers as part of the assets of the firm.

Assets	**Liabilities**
Cash	Equity
Inventories	Short term debt
Receivables	Payables
Long-term assets	Long-term liabilities

(1)

If the firm's equity capital is limited, it must obtain outside funding to carry the short-term assets on the firm's balance sheet. This is equivalent to saying that the firm must obtain funding to keep production going until cash flows are finally realized. If the financing is obtained from banks in the form of short-term debt, then overall credit conditions ruling in the economy will affect the terms of the tradeoff between lengthening the production chain to