

onset of the crisis but that employment drops to a lesser extent. Our model addresses these features, and our deliberately stark modeling choices enable a relatively clean identification of the working capital channel of financial shocks. Neumeier and Perri (2005) and Mendoza (2010) have emphasized working capital shortages in their models of fluctuations in emerging economics. although their modeling relies on quantitative constraints on firms' financing.

Schwartzman (2010) takes the ratio of inventories to cost of goods sold as a measure of the "time to produce" for the firm, and shows that cross-section variation in the ratio is mirrored in the reduction in output during crisis periods. Raddatz (2006, 2010) also presents cross-section evidence using firm level data that financial shocks affect firm level financing needs as revealed through components of working capital. These cross-section empirical studies have the potential to provide the identification for empirical studies that attempt to quantify the impact of tighter financial conditions.

Our study suggests that our understanding will be expanded from the complementary effort to shed light on the micro-level contracting details of trade finance at the firm level. Antras and Foley (2011) use firm-level trade finance data to address the prevalence of various trade financing terms, and how such terms vary over the cycle in response to changes in financial conditions. They show, for instance, that cash in advance is prevalent when contractual enforcement is likely to be a problem, but interestingly, they also find that cash in advance becomes more prevalent during the crisis, especially for new customers who do not yet have established trade relationships. Such cyclical variation in trade terms presents opportunities for studying the impact of financial conditions on trade.