

## **Macroeconomic volatility and financial shocks**

### **Abstract**

In this paper we document the cyclical properties of U.S. firms' financial flows. Equity and debt payments display strong business cycle movements. Equity payouts are procyclical, and debt payments are countercyclical. We develop a model with explicit roles for debt and equity financing, and we study its business cycle implications. Standard productivity shocks can only partially explain the observed variations in real variables and financial flows. We show that financial shocks that affect firms' capacity to borrow can bring the model much closer to the data, and we characterize these shocks for the recent period.