

Financial Crisis, Firm Dynamics and Aggregate Productivity in Japan

Kaoru Hosono*

Abstract

Using a dynamic general equilibrium model of firm dynamics that incorporates financial intermediation costs, we quantify the degree to which the deterioration in the health of banks during the Japanese banking crisis had an impact on aggregate productivity through firm dynamics. We find that the deterioration of bank health accounts for about 20 percent to 30 percent of the actual decline in the de-trended TFP during the crisis period (1996-2002). Our results suggest that differential impacts of financial intermediation costs between more and less productive firms or between entrants and incumbents are essential to quantitatively assess the aggregate consequences of financial crises.

Key Words: Financial Intermediation Costs, Firm Dynamics, Aggregate Productivity, Japan

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* Gakushuin University

Email: kaoru.hosono@gakushuin.ac.jp