Discussion of “Are Financially Constrained Firms More Sensitive to Shocks?”

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Question: Are firms exposed to idiosyncratic shocks?

- If markets are complete, they should not be.
- But financial frictions could stand in the way of perfect risk sharing.
- The effect could even be *positive*, through a creative-destruction channel.

- How do we identify idiosyncratic shocks?
  - Data: claims at a large Swedish insurer, matched with insured firm characteristics.
  - Focus on property damage – fires, etc.
  - The authors successfully show that such claims are unpredictable and not systematic.

Main results and conclusions

- All else equal, 1% higher claims lowers firm output by about 0.004%.
    - This seems small, but claims are much smaller than output--translates into about 39 cents lost per dollar of claim.
    - Also lower value added and profits.
    - The reduced output comes entirely from a reduction in TFP.
        - Firms must rebuild capital quickly.
        - Losses must come from “business interruption.”
    - Firms cover losses by reducing cash, not taking out debt.
- Results are stronger at high-growth firms.
    - Claims are large relative to liquid assets, so authors conclude that insurance relieves financial constraints.

Minor Comments

- Something strange in summary statistics:
  - Mean claim is 110% of physical assets. Doesn't seem possible.
  - Some claims/sales ratios are negative.
- Sample firms differ significantly from other firms.
  - Generally smaller.
  - Potential selection issues? Maybe use model to control for this.
- Log-log specification leads to some difficulties of interpretation.
  - Absolute size of losses should be similar to absolute size of claims – maybe scale by assets?
- Would be interesting to see how effects persist over time.

Potentially Bigger Comments

- The fact that capital rebuilds quickly is taken as evidence of no financial constraints.
  - But why couldn't this just be insurance payouts being used to buy new machines?
- Most of the significance seems to be driven by high-growth firms.
  - Authors interpret this as evidence of financial constraints, but these firms could be different in other ways.
  - For example, maybe fast-growing firms have smaller inventories or other buffers that make them less resilient to temporary shocks.
- More broadly, there is not much evidence on the question in the title. Authors could do more to measure financial constraints.
  - Use initial levels of debt, liquidity, etc.

Nice paper – thanks!