

"Firm-level Volatility and Business Cycles"

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Abstract: Hamao, Mei, and Xu (2007) report the pro-cyclicality of idiosyncratic risks using the data of excess return of stocks among publicly traded firms in Japan, while Campbell, Lettau, Malkiel, and Xu (2001) report the counter-cyclicality of idiosyncratic risks using the similar data in the United States. This paper introduces a theoretical model to explain such opposite tendencies, focusing on the difference in the cost of bankruptcy for firms between Japan and the US.