

Factor adjustments and financial distress: Evidence from Japanese firm panel VAR

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Abstract:

We analyze the dynamic interactions among investment, hiring, and financial distress for firms. We use panel vector autoregression (PVAR) approach in order to identify the effect of one shock, while other shocks constant. Using Japanese firm level panel data, we find that the adjustment dynamics of capital and labor are significantly affected each other. Furthermore, firm financial distress critically influences these two adjustments. We conclude that the dynamic optimization problem of firms should be understood by taking into account these three components.

JEL Classification: D92; G31; G33; J23

Keywords: Investment; Labor demand; Financial distress; Panel VAR

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