

# Endogenously Procyclical Liquidity, Capital Reallocation, and $q$

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## Eisfeldt and Rampini (2006, JME): $corr[\text{capital reallocation}, y]$

Variable	Correlation of output with			
	HP level	LT level	HP turnover	LT turnover
Reallocation	0.637 (0.112)	0.511 (0.193)	0.540 (0.139)	0.414 (0.206)
Acquisitions	0.675 (0.122)	0.437 (0.236)	0.566 (0.133)	0.404 (0.207)
Sales of property, plant and equipment	0.329 (0.173)	0.431 (0.184)	0.220 (0.161)	0.377 (0.197)

Variable	Correlation of output with	
	HP	LT
<i>Panel A: dispersion in Tobin's <math>q</math> and in investment rates</i>		
Standard deviation of Tobin's $q$ ( $0 \leq q \leq 5$ )	-0.130 (0.259)	-0.122 (0.302)
Standard deviation of Tobin's $q$ ( $q \geq 0$ )	0.134 (0.122)	0.137 (0.181)
Difference between third and first quartile Divided by the median of Tobin's $q$ ( $q \geq 0$ )	0.110 (0.266)	-0.017 (0.296)

Variable	Correlation of output with	
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<i>Panel B: dispersion in total factor productivity and in capacity utilization</i>		
Standard deviation of TFP growth rates (two digit SIC code level)	-0.465 (0.194)	-0.122 (0.258)
Standard deviation of TFP growth rates (four digit SIC code level)	-0.384 (0.174)	-0.228 (0.229)
Standard deviation of productivity changes Adjusted for capacity utilization	-0.437 (0.264)	-0.244 (0.338)
Standard deviation of capacity utilization	-0.672 (0.204)	-0.560 (0.261)

## Empirical Facts

- Capital reallocation is **procyclical**
- Tobin's  $q$  is **acyclical**
- Dispersion in productivity ( $TFP$ ), proxy for benefit of capital reallocation, is **counter cyclical**

## The Model

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The denominator in  $q$  is important!

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- Bouwman, Fuller, and Nain (2006, RFS): Acquisitions made during booms have lower long-run stock and operating performance

## Conclusion

- A very elegant model with search friction!
- It will be interesting to explain the counter cyclical dispersion in productivity.
- Financial market frictions may play an important role in the cyclicality of capital reallocation.