

Shocks matter: the macro implications of firm dynamics

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Abstract:

Heterogeneous firm models are central to the modern economics literature. In this context, we revisit a central feature of these models: the nature of idiosyncratic shocks faced by firms. Using firm level data, we show that the commonly assumed parametric distributions of the shocks firms face differ in important ways from observed dynamics. We embed these findings into a general equilibrium heterogeneous firm model and show they have a first-order effect on the response of the economy to technological changes, government interventions, and the introduction of economic frictions.