26087: Labor and Finance - Booms and Busts

Joacim Tåg, IFN and Hanken
jtag.se

November 2024

Outline

Recap

Overview

Takeaways

- **Neoclassical firm:** $Y = F(K, L)$
  - Firms needs to fund K and L $\rightarrow$ capital structure choice
  - Most of corporate finance focuses on funding K
  - Assume that L is supplied in frictionless spot market
  - Wages equals the marginal product of labor in each period
- **Key characteristics of L compared to K**
  - Labor can solve unstructured problems, produce new information, produce creative solutions to problems, network, and use inter-personal skills
  - Labor comes with **labor market frictions**: people cannot be owned, can quit (wages and **job security**), can organize, can act strategically, and can incur costs from being laid off
- These frictions can affect capital structure choice

Takeaways

- **Leverage as Strategic Tool:** Firms use debt strategically in labor negotiations
- **Operating vs. Financial Leverage:** High operating leverage, often due to fixed labor costs and employment protections, may reduce crowd out financial leverage
- **Compensating Wage Differentials:** Firms need to compensate workers for job-related risks
- **Human Capital Considerations:** Firm-specific skills and high-value talent can create substantial costs in bankruptcy scenarios
- **Bankruptcy's Broader Impact on Workers:** Significant worker costs
- **Risk sharing within the firm:** Firms tend to share wage and employment risks with workers

Today: Firms and Human Capital in Booms and Busts

- Economic cycles – **booms and busts** – have a significant impact on firms' human capital strategies and performance
- **Today's lecture:** We will explore how firms manage human capital to survive and thrive in both economic booms and busts
- **Main Goals:**
  - Understand how firms' human capital strategies evolve in booms and busts
  - Discuss the role of government policies in shaping firm decisions
  - Tie human capital management across cycles to broader themes covered in the course, such as M&A, corporate ownership, and technology adoption.

Introduction to Booms and Busts

Overview

Economic Cycles: Booms and Busts

- **What are Economic Cycles?**
  - **Boom:** Periods of rapid economic growth, characterized by high demand, increased production, lax financial conditions, and rising employment.
  - **Bust:** Periods of economic contraction, marked by reduced demand, layoffs, and financial constraints and distress.
- **Impact on Firms:**
  - Firms face different challenges depending on the phase of the cycle.
  - Human capital management is particularly affected by these cycles.

Major Booms and Busts Throughout History

- **Overview:** Economic booms and busts have occurred throughout history, driven by factors like market speculation, geopolitical events, and external shocks.
  - The 1929 U.S. Recession (The Great Depression)
  - The 1973 Oil Crisis
  - The 1991 Crisis in Finland
  - The 1997-1998 Asian Financial Crisis
  - The 2001 IT Boom and Bust (Dot-Com Bubble)
  - The 2008 Great Recession
  - The COVID-19 Pandemic (2020)
- Understanding these events provides important context for how firms manage human capital and adjust strategies during economic cycles.

The 1929 U.S. Recession (The Great Depression)

- **Causes:** Stock market crash, weak banking system, reduced consumer spending.
- **Consequences:**
  - Unemployment reached 25%, massive layoffs, bank failures, deflation.
  - Led to significant government intervention, including the New Deal.
- **Impact on Human Capital:**
  - Millions displaced, wages plummeted, rise of greater government involvement.

The 1973 Oil Crisis

- **Causes:** OPEC oil embargo, sudden increase in oil prices.
- **Consequences:**
  - Stagflation: High inflation, stagnant growth, unemployment in energy-dependent sectors.
- **Impact on Human Capital:**
  - Job losses in manufacturing, transportation, and energy industries.
  - Inflation eroded purchasing power and wages.

The 1991 Crisis in Finland

- **Causes:** Collapse of the Soviet Union (trade partner), domestic banking crisis, real estate market collapse.
- **Consequences:**
  - Finland's GDP contracted by 13%, high unemployment, government bailout of banking sector.
- **Impact on Human Capital:**
  - High unemployment in export-driven industries, long-term recovery focused on technology and education.

The 1997-1998 Asian Financial Crisis

- **Causes:** Speculative bubbles, excessive borrowing, sudden reversal of foreign capital flows.
- **Consequences:** Major contractions in Thailand, Indonesia, South Korea; widespread bankruptcies.
- **Impact on Human Capital:** Millions lost jobs, long-term insecurity in labor markets.

The 2001 IT Boom and Bust (Dot-Com Bubble)

- **Causes:** Overvaluation of internet companies, speculative investments in tech stocks.
- **Consequences:**
  - Collapse of NASDAQ, tech stocks fell by 80%, massive layoffs in tech sector.
- **Impact on Human Capital:**
  - Job losses in tech (but not that many outside of tech)
  - Sectoral reallocation both in boom and bust period

The 2008 Great Recession

- **Causes:** Collapse of U.S. housing bubble, global financial crisis.
- **Consequences:** Worldwide slowdown, sharp GDP contractions, unemployment, stimulus and bailouts.
- **Impact on Human Capital:** Widespread job losses, long-term impacts on wages and job security.

The COVID-19 Pandemic (2020)

- **Causes:** Global public health crisis, economic shutdowns, supply chain disruptions.
- **Consequences:**
  - Global recession, severe impacts on travel, hospitality, retail sectors.
  - Record levels of government stimulus to mitigate the fallout.
- **Impact on Human Capital:**
  - Mass layoffs, rise of remote work, acceleration of digital transformation.

Notes from from Economic History

- **Recurrent Patterns:** Booms involve speculative bubbles and money is easy to come by, busts lead to sharp contractions in demand, employment, and wages. Money is scarce (financial constraints more likely to bind).
- **Human Capital Management:** Each crisis resulted in significant job losses and wage declines, requiring long-term recovery efforts and shifts in labor market dynamics. Both at the firm level and at the economy-wide level.
- **Government Interventions:** Governments play a crucial role in mitigating downturn effects through stimulus, labor market support, and financial sector interventions.

Firms and Human Capital in Economic Cycles

- **Human Capital in Booms:**
  - Firms expand their workforce, invest in skills, and compete for talent.
  - Wage growth, compensation packages, and retention become critical challenges.
- **Human Capital in Busts:**
  - Firms focus on cost-cutting measures, downsizing, and wage freezes.
  - Maintaining critical talent and minimizing long-term damage are key concerns.

Structure of the Lecture

Introduction to Booms and Busts

Booms and Human Capital

Busts and Human Capital in Firms

Busts and Careers

Booms, Busts, and Policy

Tying the Course Together

Booms and Human Capital

Overview

Labor Demand During Booms

- **Increased Labor Demand:** Booms drive higher production and output, leading to a surge in demand for skilled workers.
- **Aggressive Hiring:** Firms compete for top talent, often expanding their workforce rapidly to capitalize on growth opportunities.
- **Challenges:** High competition for talent can lead to shortages of key skills, driving up wages and labor costs.

Example: Technology Sector Boom

- **Tech Boom of the Late 1990s:** Tech firms aggressively hired and expanded, with companies offering lucrative compensation packages and stock options.
- **Talent Competition:** Intense competition for software engineers and developers drove salaries up significantly.
- **Overexpansion:** While the boom drove innovation and rapid growth, many firms overexpanded, leading to layoffs during the dot-com bust.

Hombert and Matray 2024: Tech Boom, Easy Financing, and Human Capital

- **Research Question**
  - How do innovation booms, supported by easy financing, impact the long-term human capital accumulation of skilled workers?
- **Data and Identification**
  - Analysis of French administrative data (1994–2015) covering wages, career paths, and firm finances.
  - Comparisons across worker cohorts: pre-boom, boom, and post-boom entrants into the ICT sector.
- **Key Findings**
  - Workers entering ICT during the boom experienced significant long-term wage declines, attributed to rapid skill obsolescence.
  - Results suggest easy financing during tech booms may reduce aggregate human capital by exposing workers to higher risk of skill depreciation.

Barbanchon et al 2024: Hiring Difficulties and Firm Growth

- **Research Question**
  - How do hiring difficulties impact firm growth and performance?
  - What strategies do firms adopt when facing challenges in hiring qualified workers?
- **Data and Identification**
  - LEED and vacancy data from France (2010–2017).
  - Shift-share instrument exploiting how occupation-specific labor market tightness across commuting zones affects employment, sales, capital, profits, and productivity.
- **Key Findings**
  - Hiring difficulties lead to **significant reductions** in firm size, capital, and profits, especially in expanding sectors and for high-skill occupations.
  - Firms respond by **raising wages, retaining incumbents, and lowering standards**.

Takeaways on Labor Demand During Booms

- Booms drive higher production and output, leading to a **surge in demand** for workers
- This can lead to **sectoral reallocation** of workers that can have **negative externalities on careers**
- **Hiring difficulties** can constrain firm growth, leading to firms **raising wages, retaining incumbents, and lowering standards**

Busts and Human Capital in Firms

Overview

Overview

- Economic busts often comes with increasingly binding credit constraints for firms:
    - Firms financial constraints matter for employment
    - Firms lending relationships to banks matter for employment
    - Firms ex-ante financial health (thus ability to absorb demand shocks) matters for employment
- Increasingly binding financial constraints forces firms to make difficult decisions regarding their workforce

Cost-Cutting Strategies

- **Layoffs and Furloughs:** Firms often resort to layoffs or furloughs to reduce labor costs quickly during recessions.
- **Temporary Layoffs:** Some firms use furloughs to retain talent while cutting costs, expecting rehiring when conditions improve.
- **Downsizing:** Permanent reductions in workforce size to align labor costs with reduced demand.
- **Risks of Layoffs:** Layoffs can lead to the loss of critical human capital and long-term productivity declines, negatively impacting employee morale and firm reputation.

Wage Freezes and Reductions

- **Wage Freezes:** Halting wage increases or performance-based bonuses to control costs; may impact employee satisfaction and retention.
- **Wage Reductions:** Reducing wages across the board or for higher-paid employees; helps retain jobs but may lower morale.

Benmelech et al 24: Financing Labor

- **Research Question**
  - How do financial constraints impact employment decisions at the firm level?
- **Data and Identification**
  - Uses data from several U.S. “quasi-experiments” (e.g., maturing debt, bank deregulation) and leverages exogenous shocks such as state bank deregulation and Japanese bank credit contraction to identify impacts on employment
- **Key Findings**
  - Firms facing maturing debt or financial constraints significantly reduce employment.
  - Bank deregulation reduces state-level unemployment by easing credit conditions.
  - Credit supply shocks (e.g., Japanese bank contraction) increase unemployment in affected regions, underscoring the importance of finance in employment stability.

Chodorow-Reich 14: The Employment Effects of Credit Market Disruptions

- **Research Question**
  - How did the 2008–9 financial crisis impact firm-level employment?
- **Data and Identification**
  - Syndicated loan data with BLS employment data for 2,000 U.S. firms
  - Exogenous variation in credit availability: exposure to the Lehman collapse
- **Key Findings**
  - Firms with pre-crisis relationships with less healthy banks experienced greater employment declines.
  - Effects are concentrated in small and medium-sized firms, explaining up to 50% of their employment decline.
  - Larger firms and those with bond market access were less impacted, highlighting the importance of financial flexibility.

Giroud and Mueller 17: Firm Leverage and Employment Losses

- **Research Question**
  - Are highly leveraged firms more vulnerable to demand shocks, leading to larger employment declines?
- **Data and Identification**
  - Establishment-level data from the U.S. Census Bureau, combined with balance sheet and county-level house price data
  - DiD approach to examine employment declines across firms with varying leverage
  - Consumer demand shocks proxied by changes in local house prices
- **Key Findings**
  - High-leverage firms experienced larger employment declines, particularly in response to falling local house prices
  - Effects were strongest in non-tradable sectors, where demand shocks are more directly local

Other key aspects

- In addition to making financial constraints binding, with impacts of employment, busts also:
  - make recruiting workers harder
  - affect workers job search behavior
  - accelerates RBTC

Brown and Matsa 2016: Boarding a Sinking Ship

- **Research Question**
  - How does corporate distress affect a firm's ability to attract job applicants?
- **Data and Identification**
  - Data from an online job search platform, focusing on applications to financial firms during the 2008–2009 recession
  - Changes in firms' CDS prices as a proxy for financial distress
- **Key Findings**
  - Distressed firms see a significant reduction in applications and applicant quality, especially for high-skill roles
  - Stronger unemployment insurance reduces worker sensitivity to firm distress
  - Firms in distress increase advertised salaries, indicating compensating wage differentials

Bernstein et al 2023: Flight to Safety

- **Research Question**
  - How do economic downturns affect the flow of high-skilled talent to startups?
- **Data and Identification**
  - Data from AngelList Talent platform, capturing job search and application behavior during the COVID-19 pandemic
  - Comparison of job searches and applications pre- and post-COVID, focusing on early-stage vs. established firms
- **Key Findings**
  - Significant shift in job seeker preferences toward established firms, especially among high-quality candidates
  - Results suggest a ”flight to safety” effect, where downturns amplify challenges for startups in attracting skilled labor

Herchbein and Kahn 2018: Do Recessions Accelerate RBTC?

- **Research Question**
  - Did the Great Recession accelerate routine-biased technological change (RBTC)?
- **Data and Identification**
  - Burning Glass job posting data (2007, 2010–2015) to track skill demand shifts
  - Bartik shock based on local employment changes to isolate demand for skills in more severely impacted areas
- **Key Findings**
  - Hard-hit areas show persistent increases in job skill requirements, particularly for routine-cognitive occupations
  - Increased technology investments are linked to heightened skill requirements
  - Routine-cognitive roles see up-skilling and wage growth; routine-manual roles experience employment declines and wage stagnation

Busts and Careers

Overview

Overview

- Economic booms and busts have significant short- and long-term effects on individual career trajectories.
- In this section we will explore that:
  - Starting a career in an recession is a bad idea
  - Losing your job in a recession has long-run consequences...
  - ...but not if you are a banker
  - Busts can push people into entrepreneurship
  - Losing your job when a mega-firm collapses is not good for your career

Graduating in a Recession

- **Immediate Effects:**
  - **Limited Job Opportunities:** Fewer job offers, lower starting salaries, and lower-quality jobs for graduates
  - **Job Mismatch:** Graduates often take jobs outside their preferred field
- **Long-Term Effects:**
  - **Wage Scarring:** Persistent wage penalties lasting up to 10-15 years
  - **Delayed Career Progression:** Graduates who start in lower-quality jobs may experience slower promotions and career advancement
- **Some Common Coping Strategies:**
  - **Job Mobility:** Switching jobs frequently during recoveries can help close wage gaps
  - **Further Education:** Some individuals pursue additional education to delay labor market entry

Oreopoulos et al 2012: The Career Effects of Graduating in a Recession

- **Research Question**
  - How do economic downturns at graduation impact college graduates' long-term earnings?
- **Data and Identification**
  - Uses Canadian administrative data on graduates' earnings and job mobility.
  - Employs variation in graduation timing relative to regional unemployment rates.
- **Key Findings**
  - Graduating in a recession leads to earnings losses, which persist up to ten years.
  - Earnings recovery involves gradual mobility to better firms; however, lower-skilled graduates face more lasting impacts.
  - High-skill graduates recover faster, often through early job mobility, while low-skill graduates face permanent wage penalties.

Job Loss and Unemployment During Busts

- **Immediate Impacts:**
  - **Wage Scarring:** Workers who lose jobs during recessions face wage penalties when re-employed.
  - **Skill Depreciation:** Extended unemployment can lead to skill atrophy, especially in fast-moving industries.
- **Re-Employment Challenges:**
  - Industry-specific recovery affects unemployment duration.
  - Job loss drives geographic mobility, disrupting personal and professional networks.
- **Long-Term Career Effects:** Career switching and lower wages may result from job loss during busts.

Schmeider et al 2023: The Costs of Job Displacement over the Business Cycle

- **Research Question**
  - How do job displacement costs vary over the business cycle?
- **Data and Identification**
  - German administrative data (1980–2005) on displaced workers, focusing on earnings and reemployment.
  - DiD approach using mass layoff events
- **Key Findings**
  - Earnings losses for displaced workers are larger during recessions, primarily due to long-term wage declines rather than employment gaps.
  - Loss off wage premiums at new employers explain most of cyclical wage losses.
  - Nonemployment duration amplifies wage losses; unemployment insurance provides limited mitigation.

Fedyk and Hodson 2024: Do Career Disruptions Matter for the Top 5%?

- **Research Question**
  - What is the impact of career disruptions on high-skilled, white-collar workers, specifically after the Lehman Brothers bankruptcy?
- **Data and Identification**
  - Resumes from Lehman Brothers employees, compared to similar employees at other banks (Goldman Sachs, Morgan Stanley, Deutsche Bank, UBS).
  - Examines career paths, employment breaks, industry switches, and entrepreneurial activity over 2008–2019.
- **Key Findings**
  - Junior employees (analysts and associates) faced minimal career impact, with similar employment continuity and wage growth as peers.
  - Senior employees (e.g., managing directors) were more likely to experience career disruptions, industry exits, and wage declines.

Entrepreneurship and Career Flexibility

- **Entrepreneurship During Busts:**
  - **Push Factors:** Recessions can drive individuals into entrepreneurship due to limited job opportunities.
  - Argument is that failure rates are higher, but some firms emerge stronger (”superstar firms”).
- **Entrepreneurship During Booms:**
  - **Pull Factors:** Abundant capital and demand lead to increased startup activity.
  - Usually driven by strong venture capital flows into innovation-driven sectors.
- **Note:** Research on the cyclicality of (high-impact) entrepreneurship is highly in-conclusive (paychecks and progress etc)

Hacamo and Kleiner 2020: Forced Entrepreneurs

- **Research Question**
  - How do labor market shocks influence the rate and quality of entrepreneurship?
- **Data and Identification**
  - Employment histories of 650,000 workers from LinkedIn data, analyzing graduates entering the workforce during weak vs. strong labor markets.
  - Success measures: firm survival, employment size, innovation, venture capital funding, acquisition, and IPO outcomes.
- **Key Findings**
  - Labor shocks increase entrepreneurship among recent graduates, particularly those from top institutions.
  - ”Forced” entrepreneurs create firms that are as successful, and sometimes more so, than firms created in strong labor markets.

Barrios-Fernández et al 2024: The Aftermath of the Nokia Collapse

- **Research Question**
  - How did Nokia's collapse impact workers' career outcomes and the economy?
  - Does a support program encouraging entrepreneurship mitigate income and employment losses for high-skilled workers?
- **Data and Identification**
  - Finnish administrative data covering Nokia's mass layoffs (2009–2012) and CEM matched comparisons with displaced workers from other firms
- **Key Findings**
  - Displaced Nokia employees experienced prolonged employment and income losses
  - Nokia's Bridge program, offering startup grants, significantly increased entrepreneurship but had limited impact on firm survival and performance.

Takeaways from Busts and Careers

- Economic booms and busts have significant short- and long-term effects on individual career trajectories.
- In this section we will explore that:
    - Starting a career in an recession is a bad idea
    - Losing your job in a recession has long-run consequences...
    - ...but not if you are a banker
    - Busts can push people into entrepreneurship
    - Losing your job when a mega-firm collapses is not good for your career

Booms, Busts, and Policy

Overview

Booms, Busts, and Policy

- Government policies significantly impact how firms manage human capital during both economic booms and busts.

- Policies such as Employment Protection Legislation (EPL), wage subsidies, and training programs can either support or constrain firms' flexibility in managing their workforce.

- Policies can either be targeted at **alleviating financial constraints** or directly impact **human capital management** in firms

Government Interventions and Firms' Financial Constraints in Economic Cycles

- **Booms:**
  - **Monetary Tightening:** Controlling inflation and restricting firms' access to credit
  - **Financial Regulation:** Tighter capital requirements on banks may limit lending to riskier firms
- **Busts:**
  - **Monetary Easing:** Reducing firms' cost of borrowing
  - **Credit Guarantees and Direct Lending:** Providing liquidity directly to banks or firms
  - **Debt Restructuring Support:** Assistance with debt restructuring can prevent bankruptcies in critical sectors.

Long-Term Dynamic Considerations

- **Crowding Out:** Prolonged government intervention may limit private capital availability.
- **Moral Hazard:** Frequent bailouts can encourage risky financial behavior among firms.
- **Dependency on Policy Support:** Some sectors may become reliant on government credit programs.

Government Policies Impacting Human Capital

- **Wage Subsidies:** Governments may offer wage subsidies during economic downturns to help firms retain workers and avoid layoffs.
- **Training Programs:** Publicly funded programs provide workers with training and reskilling opportunities, helping firms improve workforce adaptability during economic cycles.
- **Unemployment Benefits:** Provide financial support for displaced workers, allowing firms more flexibility in downsizing during busts.
- **Example:** During the COVID-19 pandemic, many governments introduced wage subsidies and training programs to help firms retain workers and maintain human capital.

Employment Protection Legislation (EPL)

- **EPL in Booms:** Strong EPL may limit firms' ability to rapidly hire and adjust labor, potentially slowing down expansion during booms.
- **EPL in Busts:** During downturns, EPL makes it more difficult for firms to lay off workers, potentially increasing labor costs during periods of low demand.
- **Trade-offs of EPL:** While EPL protects workers, it may reduce firms' ability to respond quickly to changing market conditions, making labor markets less flexible.
- **Example:** European countries with strong EPL often see lower job turnover and higher employee retention compared to countries with more flexible labor markets like the U.S.

Public-Private Partnerships for Workforce Development

- **Collaborative Training Programs:** Governments partner with private firms to develop training programs aimed at upskilling workers and preparing them for post-recession recovery.
- **Subsidized Apprenticeships:** Public-private partnerships can provide subsidized apprenticeships and internships to support workers entering or re-entering the workforce during economic downturns.
- **Benefits of Public-Private Collaboration:** These partnerships help firms maintain a skilled workforce, ensure continued investment in human capital, and contribute to long-term economic recovery.
- **Example:** Germany's dual education system, which integrates vocational training with formal education, has helped maintain a highly skilled workforce even during economic downturns.

A Note on Policy Responses to Economic Cycles in the US vs Europe

- **Flexibility in the U.S. vs. Europe:** U.S. labor markets are more flexible, with fewer restrictions on layoffs and hiring, making firms more responsive to economic changes.
- **Stronger EPL in Europe:** European countries tend to have stronger worker protections, which can limit firms' ability to adjust their workforce quickly but also ensure greater job stability.
- **Policy Trade-offs:** Flexibility allows for quicker adaptation to economic conditions but may come at the cost of job security, while stronger protections provide stability but reduce firm adaptability.

Takeaways on Booms, Busts, and Policy

- Government policies significantly impact how firms manage human capital during both economic booms and busts.
- Policies such as Employment Protection Legislation (EPL), wage subsidies, and training programs can either support or constrain firms' flexibility in managing their workforce.
- Policies can either be targeted at **alleviating financial constraints** or directly impact **human capital management** in firms

Tying the Course Together

Overview

Introduction to Booms and Busts

Booms and Human Capital

Busts and Human Capital in Firms

Busts and Careers

Booms, Busts, and Policy

Tying the Course Together

Aggregate Conditions and Corporate Behavior

- Aggregate economic conditions influence the key corporate behaviors we covered before:
  1. Mergers and Acquisitions
  2. Corporate Ownership Forms
  3. Firm Investments in New Technologies
  4. Capital Structure and Bankruptcy

- Booms and busts affects financing capabilities of firms, leading to waves in MnAs, ownership forms, investments in technologies, and bankruptcies

Cyclicality in M&As

- **Merger Waves:** M&A activity tends to follow economic cycles, with waves of mergers occurring during booms.
- **Why M&A Activity Increases in Booms:** Higher firm valuations and easier access to capital make mergers more attractive during expansions.
- **M&A During Busts:** Lower firm valuations during recessions provide opportunities for acquiring distressed assets at discounted prices. Consolidation is common to improve efficiency.
- **Human Capital Considerations:** Mergers often lead to restructuring, layoffs, or talent acquisition, impacting the firm's human capital strategy.

Cyclicality in Corporate Ownership Forms

- **Private Equity (PE) Cyclicality:** PE buyouts tend to increase during downturns when firm valuations are low, often leading to operational restructuring
- **Family Firms as ”Insurers”:** Family-owned firms often provide greater job stability during downturns and tend to be more conservative in financial decisions
- **Example:** Family firms in Germany have been shown to maintain stable employment levels during downturns compared to non-family-owned firms

Technology Adoption During Economic Cycles

- **Faster Technology Adoption in Recessions:** Economic downturns spur firms to adopt cost-saving technologies for efficiency gains
- **Human Capital Restructuring:** Firms take the opportunity to lay off less productive (technologically obsolete) labor during busts to reduce labor costs
- **Human Capital and Technology:** New technologies require upskilling or reskilling workers, impacting human capital strategies

Cyclicality in Bankruptcies

- **Bankruptcies Increase in Recessions:** Financial distress is more common during economic downturns, leading to an increase in bankruptcies, especially among highly leveraged firms
- **The Role of ”Creative Destruction”:** Downturns lead to the failure of weaker firms (”zombies”), allowing more innovative and resilient firms to emerge and grow
- **Human Capital Dynamics:** Bankruptcies lead to job losses, but can also create opportunities for entrepreneurial activity and new firm formation

What Have We Done?

- **Course objectives:** Introduce topics at the intersection of labor economics and corporate finance through five modules
  1. Mergers and acquisitions
  2. Corporate ownership forms
  3. Firm investments in new technologies
  4. Capital structure choices and bankruptcy
  5. Financial market booms and busts

- **Learning objectives:**
  - Analyze corporate policies and ownership's impact on human capital and careers
  - Participate in policy discussions related to corporate policies and labor
  - Conduct independent research in labor and finance

Why Take the Course?

1. As we will see, corporate policies and events have long-run effects on careers of workers. **Your future careers.**

2. Many of you will end up in **managerial positions** or will be **analyzing firms** or **influencing government policy** in human capital intensive industries where **management of human capital is central for performance.**

3. You will learn **analytical skills** and **how to conduct research** in Labor and Finance through reading academic articles. This will **help with your thesis.**

Remaining Deadlines

- **Key deadlines:**
  1. 08.11: Sign up for student paper presentation
  2. 15.11: Presentation submission deadline
  3. 18.11-22.11: Lectures and presentations
  4. **25.11**: Team and topic deadline for Course Assignment
  5. **13.12**: Course Assignment deadline (and DL for PhD student reports)

- **Remember to fill out feedback form at the end of the course!**