FORECASTING THE BEHAVIOUR OF BANKRUPTCIES

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Abstract

This paper explores the determinate of corporate failures in Finland. The analysis makes use of aggregate monthly time series for some financial and non-financial variables covering the period 1922-1990. It is partly based on some recent Finnish micro evidence on bankruptcies and partly on recent literature on the role of financial intermediation in the propagation of aggregate economic shocks. The empirical analyses indicate that bankruptcies constitute an important

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ingredient in terms of the determination of other variables. In particular, it turns out that overall liquidity and firm failures are closely related. We also find the basic relationships strikingly stable over long periods. Finally, we find some, although not very strong, evidence of non-linearities in the financial and non-financial time series.

**Keywords:** Bankruptcy, financial inter-mediation, time series models

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1 Introduction

This paper explores the determinants of corporate failures in Finland. The analysis makes use of aggregate time series for some financial and non-financial variables. As a starting point we