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When Empty Shelves Meet Empty Pockets: Precautionary Inventory under Uncertain Liquidity

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11:00–12:30

WYL314, 3/F, Dorothy Y. L. Wong
Building, Lingnan University



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BIOGRAPHY

Prof. Xiangjun MA is a Professor and Vice Dean of China Economic Research Institute (CERI) at Liaoning University. She received her Ph.D. from the University of Virginia. She previously held appointments as an Associate/Assistant Professor at the University of International Business and Economics (UIBE), an Economist/Manager in the Transfer Pricing team in Deloitte Tax LLP (Bay Area office, California), a Visiting Scholar at the National School of Development (NSD) at Peking University, and was seconded to the Department of WTO Affairs at the Ministry of Commerce of China. Her research interests include international trade, international taxation and multinational enterprises, applied microeconomics, and political economy. Her work has been published in journals including *Journal of International Economics*, *Economic Research Journal (in Chinese)*, and so forth.

ABSTRACT

The real effects of industrial policies aiming at easing firms' access to credit depend on when the external financing is needed and how the production cycle is affected. This paper studies how inventory dynamics and liquidity constraints jointly shape firms' precautionary inventory holdings, production, and markups. Firms anticipating future liquidity shortfalls from large outstanding account receivables that are difficult to collect draw on bank credit to build inventory buffers in advance, hedging against stockouts that would otherwise force costly external finance. Using the National Tax Survey Database of China, we provide empirical evidence that firms exposed to greater liquidity uncertainty hold larger inventories and identify external financing as a channel linking liquidity risk to inventory decisions. We rationalize these patterns in a dynamic (s,S) inventory model featuring demand uncertainty, fixed ordering costs, and a persistent liquidity state. Counterfactual analyses show that payment delays by downstream buyers propagate along the supply chain, generating inventory amplification, production losses, and profit margin compression for upstream sellers. We further derive an output-indifference frontier between interest rates and payment-delay regulation, providing a structural foundation for evaluating supply-chain financing policies in China.