



## **Abstract**

This paper provides evidence on the relation between financial constraints and the cyclicity of markups. Using a sample of manufacturing industries in 59 countries, we find that markups are more procyclical in environments with higher financial constraints. This supports the idea that financially constrained firms need to raise funds in recessions, and the way they do it is through sales. There is also some suggestive evidence showing that the relation between financial constraints and markups cyclicity depends on the level of competition, as financially constrained firms would raise or lower prices strategically in response to the level of competition in the market.