

Small and Large Firms over the Business Cycle

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Abstract

We analyze the behavior of small and large firms over the business cycle, using new firm-level quarterly data from the US Census Bureau covering the balance sheets and income statements of all firms in the US manufacturing sector. We find that sales, inventory growth, and investment rates are more cyclical among smaller firms. The differential cyclicity holds after controlling for industry effects, and is driven by the behavior of firms in the top 1% of the asset distribution. We show that the result survives when directly controlling for firm leverage, liquidity, or bank dependency, suggesting that the excess cyclicity of small firms may not be driven by differences in access to credit. Additionally, we find that independent of size, firms with zero debt exhibit less sensitivity to the business cycle than positive leverage firms. Finally, we assess the importance of the excess cyclicity of small firms for aggregate fluctuations in sales, inventory, and investment.

Keywords: Firm size, business cycles, financial accelerator

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