Abstract

We present empirical evidence for a series of 28 European countries for the 1996-2009 period that supports the recent finding that firm size is relatively more procyclical for large firms. This fact is established for size-groups with a similar number of firms and for a series of size definitions such as Sales, Assets and Debt. We find that this variation holds within sectors and controlling firm leverage, age and entry/exit. Interestingly, we provide new evidence that smaller (larger) firms are countercyclical (procyclical) in a series of debt related firm ratios such as leverage and debt to sales. A related fact that we document is that dividends are less procyclical for small firms. These two facts combined seem to indicate that, due to financial constraints, small firms must rely more on retained earnings to finance their growth in expansions. Finally, we show that smaller firms have a larger marginal productivity of capital, defined as sales to assets, with this ratio being countercyclical especially for large firms.