

Relative Operating Expenditure: Cyclical and Firm Behaviors

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Analyzing firm behavior is not only useful to model the specific impacts of economic policies, but it is also important to understand how firm-level decisions can impact macroeconomic performance. Using available panel data from all publicly listed firms within the North America CRSP/Compustat database, I analyze operating expenditures relative to sales, a metric which can indicate firm efficiency, preferences, and strategies. I test the relationships between relative operating expenditure, business cycles, and financial performance, finding statistically significant and robust evidence at the firm level to suggest that relative operating expenditure is countercyclical, is positively correlated with firm liquidity, and is negatively correlated with firm size, age, profitability, and leverage. Additionally, my findings provide possible firm-level and structural explanations for the significant trends observed in relative operating expenditure, providing a starting point for further research and discussion and helping to bridge the gap between microeconomic financial modelling and macroeconomic cost analysis.

JEL Codes: C32, C33, C50, D22, E32, G30, L25, M21