the cyclical response of trade credit received and of short-term financial assets (including trade credit given), since increases in the former and adjustments in the latter may be important ways for firms to smooth out adverse shocks[5]. In addition it would be useful to have evidence on the response of all sources of funds (including retentions and new share issues), in order to understand how the financial overall adjustment strategy differs across firms' types. Finally, the analysis of the behavior of short-run investments (like inventory accumulation) must be complemented by an analysis of how the response of fixed investment to financial factors varies over time for different types of firms. Whereas much is known about inter-firm differences in the sensitivity of fixed investment to financial constraints, less is known about how such sensitivity depends upon the phase of the business cycle or upon the monetary policy stance[6].

In this paper we present evidence on all these issues using annual data for two long samples of large and small (quoted and unquoted) Italian private companies, available for the period 1968-1991. The data have been collected by Mediobanca and have been obtained by aggregating balance sheet information. The lenght of the sample and the knowledge of the industrial classification for the firms in the two samples are two of the advantages of this data set. One disadvantage is that, since the source of information are companies' balance sheets, the frequency of the data is annual. Another potential disadvantage is that the companies that make up the sample of small firms are quite well established, and this may bias the results against finding significant differences between small and large firms due to different degrees of financial constraints each group faces. However if such differences are found, it is plausible to argue that the heterogeneity in response would be even greater if large firms were compared with newer, less well-known, and smaller companies.

Since Italian firms rely heavily on bank debt and monetary policy has been the main tool of demand management, Italy is an interesting case to study the effects of monetary tightening[7].

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5 On the use of short-term financial assets as a source of funds for investment see Fazzari and Petersen (1993).

6 One contribution that provides evidence on the different sensitivity of firms to cash flow in recessions and expansions is Gertler and Hubbard (1988). For an analysis of the excess sensitivity of investment to cash flow for certain types of firms see, among others, Fazzari, Hubbard and Petersen (1988) for the US, Hoshi, Kashyap and Scharfstein (1990) for Japan, Devereux and Schiantarelli (1989) for the UK. The importance of capital market imperfections has been confirmed in the contest of the Euler equation approach (see Bond and Meghir (1990) for the UK, Gilchrist (1990) and Whited (1992) for the US, Galeotti, Schiantarelli and Jaramillo (1992), Rondi, Sembenelli and Zanetti (1992), Cristini (1993) for Italy).

7 Although bank debt is very important in Italy, close links between banks and industrial firms are not as common