

Ford and \$20.5bn for GM.⁸ However, these smaller numbers would not be fully comparable to the receivables in our theoretical framework, as a large part of the financial receivables are loans extended to dealers.⁹ For these reasons, the U.S. auto industry may not be a good fit for our theory.

4 Balance Sheet Size

We now examine the implications of our approach for the size and composition of corporate balance sheets for the two countries for which our dataset has the largest coverage - namely, the U.S. and Japan. In particular, we will examine two issues: (i) the size of company balance sheets relative to their real activity, and (ii) the size of net accounts receivable held by firms as an indicator of the stake that each individual firm holds in the production chain as a whole.

We consider first the size of corporate balance sheets by examining the distribution of the ratio of receivables to total assets. Figure 5 plots the distribution of the ratio of receivables to total assets for firms in the U.S. and Japan. The evidence points to Japanese firms having higher receivables relative to total assets than their U.S. counterparts. Figure 6 presents the same information in cumulative form, confirming that the distribution for Japanese firms dominates U.S. firms in the sense of first-degree stochastic dominance.

Our model has some potential to shed light on the observed patterns of balance sheet size. Recall equation (15) for accounts receivable and payable, which states

$$a_i p_i = a_{i+1} p_{i+1} + \beta_i w_i \tag{25}$$

⁸Ford Motor Company annual report for 2004, p. 57, General Motors annual report for 2004, p. 62.

⁹Ford 2004 annual report, p. 61.