

# Investment Decisions and Macroeconomic Uncertainty: Firm Level Evidence from Greece

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## Abstract

We investigate the effect of macroeconomic uncertainty on investment decisions by employing Greek firm level data. Our sample consists of annual data of 25000 Greek firms' balance sheets covering the period from 2000 to 2014. A dynamic factor model is employed to proxy macroeconomic volatility. The investment performance of each sector is examined within a dynamic investment model that is estimated with GMM. The robust GMM estimates of the investment rate model indicate a high degree of heterogeneity among Greek sectors. In most of the cases, macroeconomic uncertainty affects negatively investment performance. However its magnitude varies widely across sectors. After trimming the top percentiles of the sample, we do observe that smaller firms respond to uncertainty differently. This sensitivity provides evidence of a within-sector heterogeneity in firm sizes which appear to be crucial for the response of investment to changes in uncertainty.

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