Diverging Trends in Macro and Micro Volatility: Facts

Diego Comin and Sunil Mulani

New York University

September 6, 2003

Abstract

In this paper, we document the diverging trends in volatility of the growth rate of sales at the aggregate and firm level. We establish that the upward trend in micro volatility is not simply driven by a compositional bias in the sample studied. We argue that this new fact renders obsolete the proposed explanations for the decline in aggregate volatility and that, given the symmetry of the diverging trends at the micro and macro level, a common explanation is highly likely. We conclude by describing one such theory driven by market integration.

Keywords: Aggregate Volatility, Firm-Level Volatility, COMPUSTAT, Market Integration.

JEL Classification: E3, F1, D2.