

ABSTRACT

A fundamental assumption in cost accounting is that the relation between costs and volume is symmetric for volume increases and decreases. In the study, we investigated whether costs are "sticky"- that is whether costs increase more than they decrease when activity falls by an equivalent amount.

We find, for 416 firms over 10 years, which SG&A costs increase on average at a rate of 0.47% per 1% increase in sales but decrease only 0.35% per 1% decreases in sales. Our research compares the traditional model of cost behavior in which costs move proportionately with changes in its activity with an alternative model in which sticky costs occur because managers deliberately adjust the resources committed to activities. We also test hypotheses about the properties of sticky costs and how the degree of stickiness of SG&A costs varies with macroeconomic conditions and firm circumstances.

Key Words : Stickiness, Selling, general, and administrative costs (SG&A)

