

Economics 260
Spring 2012
MW 9:30-10:50
Econ 304

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Office: TMC Econ 220
Hours: MW 11:00-12:30
or by appointment

ENTREPRENEURSHIP AND FIRM DYNAMICS

Syllabus

In the course catalog, the description for Econ 260 is, “Theoretical and empirical issues in industrial organization.” Industrial Organization is about how firms are organized into and compete in markets, and Econ 260 is about how these firms originate and grow in the first place.

More specifically, entrepreneurship is about how people start firms, and firm dynamics is about how they grow or exit. (Firm entry is part of both topics.) There is some overlap between the subjects of entrepreneurship and self-employment, hence some overlap between the course material and labor economics. There is also overlap between the course material and development economics, mainly by virtue of the major World Bank initiative on entrepreneurship and the heavy use of Brazilian data in my research.

I recommend that you purchase a relatively cheap text:

Parker, Simon C. *The Economics of Entrepreneurship* (Cambridge: Cambridge University Press), 2009 (\$51.28 on Amazon), hereafter called Parker.

This text covers the literature much more broadly than the course, which instead focuses on a few topics to cover in depth.

The course requirements are two discussant reports. The first should be 1000-2000 words long. You must get my approval of the article you wish to discuss in advance. This report is due May 2. I will make suggestions for revision and the revision will be due one week after receipt of my suggestions. The second report will be a slide presentation lasting 15 to 30 minutes. All presentations will be made during the last two weeks of class, and you can pick the day for your presentation as soon as I have approved your article, which must be different from the article discussed in your first report. I have compiled a list of suggested articles from the reading list for the NBER Entrepreneurship Boot Camp, a graduate student training workshop, and from the reading list for a Harvard Business School course on Entrepreneurship taught by William Kerr and Joshua Lerner.

COURSE OUTLINE

I. The Empirics of Entrepreneurial Venture Creation

Bhide, Amar. 2000. *The Origin and Evolution of New Businesses* (New York: Oxford University Press), Introduction and Chapter 1.

Parker, Chapter 1.

Muendler, Marc; Rauch, James E., and Tocoian, Oana. "Employee Spinoffs and Other Entrants: Stylized Facts from Brazil." *International Journal of Industrial Organization*, forthcoming.

Presentation on data sets by Lindsay Rickey.

II. Theories of Entrepreneurship

Lucas, Robert E. 1978. "On the Size Distribution of Business Firms." *Bell Journal of Economics* 9: 508-523.

Kihlstrom, Richard E. and Laffont, Jean-Jacques. 1979. "A General Equilibrium Entrepreneurial Theory of Firm Formation Based on Risk Aversion." *Journal of Political Economy* 87: 719-748. See Parker pp. 77-78 for a review of risk aversion.

Melitz, Marc J. 2003. "The Impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity." *Econometrica* 71: 1695-1725, sections 1-4 only. [Strictly speaking, this article does not present a theory of entrepreneurship, but it complements the previous two articles because it also generates a size distribution of firms in general equilibrium, with a more interesting demand structure.]

Lazear, Edward P. 2005. "Entrepreneurship." *Journal of Labor Economics* 23: 649-680.

III. Finance Constraints

Parker, Sections 7.1 – 7.3, 7.6.2.

Banerjee, Abhijit V. and Newman, Andrew. 1993. "Occupational Choice and the Process of Development." *Journal of Political Economy* 101: 274-298, section II.C only.

Stiglitz, Joseph and Weiss, Andrew. 1981. "Credit Rationing in a Model with Imperfect Information." *American Economic Review* 71: 393-410.

- Evans, David and Jovanovic, Boyan. 1989. "An Estimated Model of Entrepreneurial Choice under Liquidity Constraints." *Journal of Political Economy* 97: 808-827.
- Hurst, Erik, and Lusardi, Annamaria. 2004. "Liquidity Constraints, Household Wealth and Entrepreneurship." *Journal of Political Economy* 112: 319-347.
- Banerjee, Abhijit et al. 2010. "The Miracle of Microfinance? Evidence from a Randomized Evaluation." BREAD Working Paper No. 278 (June).
<http://ipl.econ.duke.edu/bread/papers/working/278.pdf>

IV. Firm Dynamics and Industry Evolution

Parker, Chapter 11, especially section 11.1

- Jovanovic, Boyan. 1982. "Selection and the Evolution of Industry." *Econometrica* 50: 649-70.
- Arkolakis, Costas. 2011. "A Unified Theory of Firm Selection and Growth." National Bureau of Economic Research Working Paper No. 17553. [The key result is better developed in another context in Arkolakis, Costas. 2010. "Market Penetration Costs and the New Consumers Margin in International Trade." *Journal of Political Economy* 118: 1151-1199.]
- Cabral, Luís M. B. and Mata, José. 2003. "On the Evolution of the Firm Size Distribution: Facts and Theory." *American Economic Review* 93: 1075-90.
- Bazzi, Sam; Muendler, Marc; and Rauch, James E. 2011. "Small Firms, Small Startups, and Policy Reform: Evidence from Brazil." UCSD Working Paper.
- Jovanovic, Boyan and MacDonald, Glenn M. 1994. "The Life Cycle of a Competitive Industry." *Journal of Political Economy* 102: 322-347.
- Klepper, Steven. 1996. "Entry, Exit, Innovation, and Growth Over the Product Life Cycle." *American Economic Review* 86: 562-583.

V. Spinoff Entrepreneurship

Parker, Section 2.6

- Klepper, Steven, and Sleeper, Sally. 2005. "Entry by Spinoffs." *Management Science* 51(8): 1291-1306.

- Franco, April Mitchell, and Filson, Darren. 2006. "Spin-Outs: Knowledge Diffusion through Employee Mobility." *RAND Journal of Economics* 37(4): 841–860.
- Fairlie, Robert and Robb, Alicia. 2007. "Families, Human Capital, and Small Business." *Industrial and Labor Relations Review* 60(2), or "Why Are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritances, and Business Human Capital." *Journal of Labor Economics* 25(2): 289-323.
- Muendler, Marc and Rauch, James E. 2012. "Mobilizing Social Capital Through Employee Spinoffs: Evidence from Brazil." UCSD Working Paper.