

Firm Entry and Exit and Aggregate Growth

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Resumo/Abstract:

Using plant-level data from Chile and Korea, we find that, during episodes of rapid growth, most of the aggregate productivity growth is due to the entry and exit of firms while, during episodes of slower growth, it is mostly due to growth within and across existing firms. Studies for other countries suggest that this is an empirical regularity. We develop a dynamic general equilibrium model based on Hopenhayn (1992) which incorporates the theory of economic growth proposed by Parente and Prescott (1994) and Kehoe and Prescott (2002). In this model, new firms enter every period with productivities drawn from a distribution whose mean grows over time. After entering, a firm's productivity grows, but not as rapidly as new firms productivity distribution. In a version of the model calibrated to U.S. plant-level data, we simulate two sets of reforms: a decrease in new firms costs of entry and a reduction in the barriers to technology adoption for new firms. The model reproduces the regularity that we observe in the data, and confirm that entry and exit of firms is crucial for reforms to generate rapid growth.