

HOMOGENIZATION, SPECIALIZATION AND THE SHARING OF OUTPUT GROWTH BETWEEN INCUMBENTS AND ENTRANTS

by

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A model is developed which focuses on the relation between output growth and product specialization of firms. This makes it possible to analyze the sharing of output growth between incumbents and entrants resulting after the occurrence of a demand shock. As shown in the paper, the empirical implications of the model are consistent with some otherwise unexplained stylized facts of the process of firm growth. In particular, the model generates a strong positive correlation between entry and exit rates across industries, a large dispersion of growth rates of incumbents even within well-defined sectors, and predicts that industry expansion is in the long-run accommodated by the entry of new firms as opposed to the growth of incumbents. Finally, the model mimics observed patterns of autocorrelation of growth rates of firms.

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