Identifying Neighborhood Effects among Firms: Evidence from Location Lotteries of the Tokyo Fish Market

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Abstract

Spillover effects from neighboring firms are the crucial source of the agglomeration economies. A fundamental challenge in estimation of the effects is economic agents' self-selection into locations. This makes it difficult to distinguish whether good neighbors allow firms to perform better, or good firms just cluster together. We overcome the challenge by analyzing spillover effects among mid-level fish intermediaries located in the Tokyo Tsukiji Fish Market and by exploiting a unique feature of their locations within the market: their locations are determined every 4-10 years by the relocation lotteries. First, we confirm that the locations of intermediaries are randomly distributed. Then, we find that the characteristics of neighboring firms significantly affect the firm's performance. Specifically, diversity of the neighboring firms positively affects the performance of small-size firms, and share of large firms in the neighborhoods decreases the performance of the large firms.