

The Impact of Local Agglomeration on Firm Entry and Exit*

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Abstract

This study analyzes how local agglomeration affects the probabilities of firm entry and exit by focusing on single-establishment firms in the service sector. Firms in the service sector face geographically localized markets since service is generally non-tradable. A theoretical prediction in the literature is that firm turnover is increasing in market size since local agglomeration increases ex-ante expected profits and decreases ex-post profits by tough competition. A novelty of this study is to identify geographic ranges of local agglomeration with geocoding of firm location and micro-geographic data. This study finds that probability of firm entry and exit in the service sector is largely affected by agglomeration factors localized within a 3km radius from their locations.

JEL classification: L11, R10, R11, R12, R30

Keywords: Local agglomeration, Firm entry and exit, Service sector, Micro-geographic data

* We thank Nobuaki Hamaguchi, Masayuki Morikawa, Makoto Yano, and participants at RIETI DP seminar for their useful comments and suggestions. This research was conducted under the project “An Empirical Study on Compact City: Evaluating place-based policies in Japan” at RIETI. This study uses micro-data of the 2004 and 2006 Establishment and Enterprise Censuses, 2009 and 2014 Economic Censuses for Business Frame, 2012 and 2016 Economic Censuses for Business Activity (Ministry of Internal Affairs and Communications) with the permission under the Statistical Law. This study utilizes shape files by survey area and mesh statistical data of these censuses (Ministry of Internal Affairs and Communications). The views expressed in the papers are solely those of the author(s), and neither represent those of the organization to which the author(s) belong(s) nor the Research Institute of Economy, Trade and Industry.

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