

The Effects of Competition on Exit and Growth

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Abstract

This paper presents an endogenous growth model to investigate the relationship between exit of firms and economic growth. The model shows the growth rate depends on productivity distribution and has a U-shaped relationship with the exit rate. In addition, this paper analyzes the effects of various kinds of policies: a subsidy to entry of firms raises the exit rate, resulting in a higher average and less dispersion of productivity distribution of surviving firms, but has ambiguous effect on the growth rate. On the contrary, more intense product market competition reduces the per capita number of surviving firms but raises the growth rate.

KEYWORDS: Exit, endogenous growth, competition

JEL classifications: L1,O3,O4

References

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