

Market Size and Entrepreneurship

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Abstract

In order to examine the impacts of market size on entrepreneurship, we estimate a monopolistic competition model that involves entrepreneurial decision by using data on Japanese prefectures. Our results show that a larger market size measured by the population density leads to higher incentive of people to become entrepreneurs. a 10 percent increase in the population density increases the share of people who wish to become entrepreneurs by 2 percent. In contrast, the self-employment ratio is lower in prefectures with higher population density, which suggests that the market size has different impacts on the entrepreneurship in different stages.

JEL Classification: J62, L26, R12.

Keywords: market size, entrepreneurship, density economies, market expansion

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