

# Estimating Geographic Frictions on Interfirm Transactions\*

Kentaro Nakajima<sup>†</sup>

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## Abstract

This paper empirically investigates the cost of geographical distance in the interfirm transactions by using the actual microdata on inter-firm transaction relationships. I model the formation of transaction partners between upstream and downstream firms as a two-sided many-to-many matching game with transferable utility and estimate the structural parameters of the model. In the results, I find that the average distance to the transaction partners negatively affects the firms' structural revenues in most of the industries, especially in upstream firms.

*Keywords:* Microdata on transaction relationship; two-sided many-to-many matching; Marshallian externality

*JEL classification:* R11, L14

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<sup>†</sup>Faculty of Economics, Tohoku University (nakajima.kentaro@gmail.com).