Transactions as a Source of Agglomeration Economies: Buyer-Seller Matching in the Japanese Manufacturing Industry

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Abstract

This paper empirically examines whether the geographical proximity of transaction partners improves the firms' profits by using the actual microdata on inter-firm transactions. I model the formation of transaction partners between newly entering firms and existing 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. This strongly suggests that the existence of agglomeration economies results from the inter-firm transactions that occur between geographically close firms. Furthermore, this effect is larger for entrant firms than existing firms.

Keywords: Buyer-seller network; two-sided many-to-many matching; Marshallian externality
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