

Syllabus 'Advances in the Economics of Entrepreneurship'

Erasmus University Rotterdam, 2012

Erasmus Research Institute in Management

Taught by Philipp Koellinger, Roy Thurik and guest lecturers

Course objectives

Entrepreneurship is one of the most active and promising fields in economics, with many fascinating and open questions and a broad range of important implications. The economics view is interesting for management students as it not only broadens their understanding of the classic approach of entrepreneurship as a profession or a behavior (what is entrepreneurship, who becomes entrepreneur and who becomes successful) but it also provides new understanding of the interplay between entrepreneurship and the economy as a whole. As a second year course for PhD students, the objectives of the course are multi-dimensional, including:

1. Acquainting students with the most influential theoretical and empirical contributions on entrepreneurship in the economics literature, with an emphasis on recent work.
2. Learning and practicing how to read high-level academic papers critically, with a view to identify research opportunities.
3. Beginning to make the transition from consumers to producers of research.
4. Practicing presentation, discussion and writing skills.

It is assumed that students participating in this class have a solid background in micro- and macro-economics as well as econometrics from their previous training, all at the intermediate level.

Grading

Since several skills will be taught and practice in the course, the grading will be based on several components:

- 30% Participation in discussions
- 40% Presentations
- 30% Research proposal

Grading of participation will inevitably be carried out on a rather crude scale. During class discussions, there will be ample opportunity for all members of the class to participate fully, because students who are hesitant to do so will be invited to contribute by means of direct questions about the paper(s). If you have read the papers, critically reflected their methods and results, and thought

seriously about some new research directions, you will have no problem with this part of the requirements.

Every student will give at least two presentations in class. In the *first presentation*, you will present a particular paper from the reading list of this course. Your presentation should demonstrate a thorough understanding of the paper you are presenting, the assumptions and methods that the paper uses to reach its conclusion, and a critical appraisal of the contributions and limitations of the paper.

In the *second presentation*, you will present your own research proposal to the class. You should try to present your proposal in a manner that is accessible for your audience. Thus, you may choose to present something by means of a numerical example rather than equations, or you may choose to find a succinct way to summarize prior literature.

The research proposal should consist of about 2,000-4,000 words and explain in reasonable detail:

- The question you will address, how it derives from the existing literature, and why the question might be of interest to the profession.
- (if theoretical) An outline of the structure of the model, the results you think your model will generate, and the intuition that leads you to expect these results.
- (if empirical) The dataset you plan to use. While you do not need to collect or construct the data, you should verify that the variables you plan to include are more likely than not to be available. In describing the methodology, you should pay very close attention to possible endogeneity problems, and how you plan to resolve them.

The research proposal is due two weeks after the last class. Thus, you will have time to incorporate the feedback you got for your second presentations into your proposal. I will be looking for clarity of idea and exposition, originality, relevance, and feasibility in your proposal. In other words, make sure in your proposal that you explain why your research idea is relevant, how it extends the existing literature, and a clear explanation of what exactly you would like to do.

Timeline

27 Sept

Morning (Roy Thurik):

- Definitions, measurement and the economy

Afternoon (Philipp Koellinger):

- Organization of the course
- Recent trends and open questions
- Entrepreneurship and Organization Design (Roessler and Koellinger 2012)

Oct 4

Morning

- Student presentations and discussions on assigned papers
 - The returns to entrepreneurship
 - Who becomes an entrepreneur?

Afternoon

- Guest lecture Erik Stam on geography and entrepreneurship (Stam 2010).

Oct 11

Morning

- Student presentations on assigned papers
 - Who becomes an entrepreneur?
 - The activities of entrepreneurs

Afternoon

- Guest lecture Mirjam van Praag on experiments in entrepreneurship research (Lindquist et al. 2012)

Oct 18

Morning

- Guest lecture Martin Carree on entrepreneurship and happiness (Carree and Verheul 2012)

Afternoon

- Student presentations on assigned papers
 - Entrepreneurship and industry dynamics
 - Macro-economic relevance of entrepreneurship

Oct 25

- Student presentations and discussion of their research proposals

Reading list

Definitions, measurement and the economy

- Iversen, J.; Jørgensen, R.; Malchow-Møller, N. 2008. Defining and Measuring Entrepreneurship. *Foundations and Trends in Entrepreneurship*, vol. 4, iss. 1, 1-63.
- Parker, S. 2005. The Economics of Entrepreneurship: What We Know and What We Don't. *Foundations and Trends in Entrepreneurship*, vol. 1, iss. 1, 1-54.
- Wennekers, A.R.M.; Stel, A.J. van; Carree, M.A.; Thurik, A.R. 2010. The Relation between Entrepreneurship and Economic Development: Is It U-shaped? *Foundations and Trends in Entrepreneurship*, vol. 6, iss. 3, 167-237.

The returns to entrepreneurship

- Carree, M.; Verheul, I. 2012. What Makes Entrepreneurs Happy? Determinants of Satisfaction Among Founders. *Journal of Happiness Studies*, vol. 13, iss. 2, pp. 371-387.
- Hamilton, B. H. 2000. Does Entrepreneurship Pay? An Empirical Analysis of the Returns to Self-Employment. *Journal of Political Economy*, vol. 108, iss. 3, pp. 604-31.
- Moskowitz, T. J.; Vissing-Jørgensen, A. 2002. The Returns to Entrepreneurial Investment: A Private Equity Premium Puzzle? *American Economic Review*, vol. 92, iss. 4, pp. 745-78.

Who becomes an entrepreneur?

- Blanchflower, D.; Oswald, A. 1998. What Makes an Entrepreneur? *Journal of Labor Economics*, vol. 16, iss. 1, 26-60.
- Camerer, C.; Lovallo, D. 1999. Overconfidence and Excess Entry: An Experimental Approach. *American Economic Review*, vol 89, iss. 1, 306-318.
- Fairlie, R. W. 2002. Drug Dealing and Legitimate Self-Employment. *Journal of Labor Economics*, vol. 20, iss. 3, pp. 538-67.
- Hurst, E.; Lusardi, A. 2004. Liquidity Constraints, Household Wealth, and Entrepreneurship. *Journal of Political Economy*, vol. 112, iss. 2, 319-47.
- Koellinger, P. et al. 2012. The Molecular Genetic Architecture of Serial Self-Employment. Mimeo (on Blackboard).
- Lazear, E.P. 2005. Entrepreneurship. *Journal of Labor Economics*, vol. 23, iss. 4, 649-680.
- Lindquist, M., Sol, J., van Praag, M. 2012. Why Do Entrepreneurial Parents Have Entrepreneurial Children? IZA Discussion Paper No. 6740 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2119047).
- Minniti, M. 2005. Entrepreneurship and Network Externalities. *Journal of Economic Behavior & Organization*, vol. 57, 1-27.

The activities of entrepreneurs

- Holmes, T.; Schmitz, J. 1990. A Theory of Entrepreneurship and Its Application to the Study of Business Transfers. *Journal of Political Economy*, vol. 98, iss. 2, 265-294.
- Baumol, W. 1990. Entrepreneurship: Productive, Unproductive and Destructive. *Journal of Political Economy*, vol. 98, iss. 5, 893-921.
- Sandri, S.; Schade, C.; Mußhoff, O.; M. Odening. 2010. Holding on for Too Long? - An Experimental Study on Inertia in Entrepreneurs' and Non-Entrepreneurs' Disinvestment Choices. *Journal of Economic Behavior and Organization*, vol. 76, 30-44.
- Roessler, C.; Koellinger, P.D. 2012. Entrepreneurship and Organization Design. *European Economic Review*, vol. 56, iss. 4, 888-902. (this paper will be presented by Philipp Koellinger on the first day)

Entrepreneurship and industry dynamics

- Bresnahan, T.; Reiss, P. 1991. Entry and Competition in Concentrated Markets. *Journal of Political Economy*, vol. 99, iss. 5, 977-1009.
- Geroski, P.A. 1995. What Do We Know About Entry? *International Journal of Industrial Organization*, vol. 13, 421-440.
- Klepper, S. 1996. Entry, Exit, Growth, and Innovation over the Product Life Cycle. *American Economic Review*, vol. 86, iss. 3, 562-583.
- Kirzner, I. 1997. Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach. *Journal of Economic Literature*, vol. 35, iss. 1, 60-85.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., Shleifer, A. 2002. The Regulation of Entry. *Quarterly Journal of Economics*, Vol. CXVII, iss. 1, 1-37
- Sobel, R. S.; Dean, A. M. 2008. Has Wal-Mart Buried Mom and Pop? The Impact of Wal-Mart on Self-Employment and Small Establishments in the United States. *Economic Inquiry*, vol. 46, iss. 4, 676-95.
- Stam, E. 2010. "Entrepreneurship, Evolution and Geography." In: Boschma, R. & Martin, R.L. (eds) *The Handbook of Evolutionary Economic Geography*. Cheltenham: Edward Elgar. pp. 307-348.

Macro-economic relevance of entrepreneurship

- Schmitz, J. 1989. Imitation, Entrepreneurship, and Long-Run Growth. *Journal of Political Economy*, vol. 97, iss. 3, 721-739.
- Hausmann, R.; Rodrik, D. 2003. Economic Development as Self-Discovery. *Journal of Development Economics*, vol. 72, iss. 2, 603-33.
- Acemoglu, D.; Aghion, P.; Zilibotti, F. 2006. Distance to Frontier, Selection, and Economic Growth. *Journal of the European Economic Association*, vol. 4, iss. 1, 37-74.
- Garcia-Penalosa, C.; Wen, J.-F. 2008. Redistribution and Entrepreneurship with Schumpeterian Growth. *Journal of Economic Growth*, vol. 13, iss. 1, 57-80.
- Koellinger, P. D.; Thurik, R. 2013. Entrepreneurship and the Business Cycle. *Review of Economics and Statistics*. (forthcoming)

Supplementary reading

- Banerjee, A.; Newman, A. 1993. Occupational Choice and the Process of Development. *Journal of Political Economy*, vol. 101, iss. 2, 274-298.
- Jovanovic, B.; MacDonald, G. 1994. The Life Cycle of a Competitive Industry. *Journal of Political Economy*, vol. 102, iss. 2, 322-347.
- Nooteboom, B. 1994. Innovation and Diffusion in Small Firms: Theory and Evidence. *Small Business Economics*, vol. 6, 327-347.
- Sutton, J. 1997. Gibrat's Legacy. *Journal of Economic Literature*, vol. 35, iss. 1, 40-59.
- Caves, R. 1998. Industrial Organization and New Findings on the Turnover and Mobility of Firms. *Journal of Economic Literature*, vol. 36, iss. 4, 1947-1982.
- Schade, C.; Burmeister, K. 2009. Experiments on Entrepreneurial Decision Making: A Different Lens through which to Look at Entrepreneurship. *Foundations and Trends in Entrepreneurship*, vol. 5, iss. 2, 81-134.
- Vereshchagina, G.; Hopenhayn, H. 2009. Risk Taking by Entrepreneurs. *American Economic Review*, vol. 99, iss. 5, 1808-30.

Classics worth reading

- Kirzner, I. 1973. *Competition and Entrepreneurship*. University of Chicago Press: Chicago and London.
- Knight, F. 1921. *Risk, Uncertainty and Profit*. Houghton-Mifflin: New York.
- Schumpeter, J. 1934. *The Theory of Economic Development*. Harvard University Press: Cambridge, MA.