

Macro Roundup Article

Headline: [The Size of Firms and the Nature of Innovation](#)

Article Link: <https://mattsclancy.substack.com/p/the-size-of-firms-and-the-nature>

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Tweet: .@mattsclancy and @ArnaudDyevre survey the innovation literature and conclude that large firms and small firms invest a similar percentage of sales in R+D, but large firms are less productive, with fewer innovations and less impact per research dollar.

Summary: The first important fact about firm heterogeneity and innovation is that corporate R&D expenditures scale up proportionately with their sales. In other words, when sales double, money spent on R&D doubles too. A variety of different lines of evidence show that firms get fewer inventions per R&D dollar as they grow. Finally, when large and established firms actually do innovation resulting in observable products and services, it is more likely to be directed toward improving existing products rather than creating new ones. The bigger a firm is, the more it tries to improve its existing products. Patent evidence also points to larger firms engaging in more incremental innovation. Akcigit and Kerr also find that larger firms are more likely to cite their own patents, which is an indication that they are hewing close to the intellectual landscape they have previously explored.

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