Searching for Customers, Finding Pollution

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In developing countries, most manufacturing firms are small and located in high-density urban areas, often near congested streets. To study the determinants and implications of this location choice, we collect a novel firm survey and detailed air pollution measurements within Ugandan cities. We find that firms locate on the busiest roads searching for customer visibility, but in doing so they expose their workers to substantial pollution. This sorting pattern increases profits, but with severe health costs: if firms were randomly located across space, annual profits would decrease by $195 for the average firm, but its workers' life expectancy would increase by two months.

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