

## Innovation and Productivity: Extending the Core Model (Innovation in Firms: A Microeconomic Perspective)

The OECD core model (see Chapter 3) achieved quite remarkable results even if constrained by international benchmarking requirements (use of a "simpler" model in order to include a number of OECD countries). However, important variables were omitted or simplified to enable international comparisons. Obvious examples are: the use of a sub-optimal productivity equation (value added or total factor productivity variables would have been better candidates for productivity measures than total turnover); omission of important production factors such as measures of human and physical capital; and the use of binary variables when quantitative ones were available for some countries (e.g. exports).

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**Knowledge Type:** [Thematic report](#) [1]

**Other Tag:** [process innovation](#) [2]

[innovation intensity](#) [3]

[knowledge production](#) [4]

[innovation expenditure](#) [5]

[training](#) [6]

[knowledge flows](#) [7]

[innovation survey](#) [8]

[innovation capabilities](#) [9]

[product innovation](#) [10]

[total factor productivity](#) [11]

[endogeneity](#) [12]

[industry level](#) [13]

[factor of production](#) [14]

[novelty](#) [15]

[productivity](#) [16]

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[1] <https://www.innovationpolicyplatform.org/knowledge-type/thematic-report-0>

[2] <https://www.innovationpolicyplatform.org/topic/process-innovation>

[3] <https://www.innovationpolicyplatform.org/topic/innovation-intensity>

[4] <https://www.innovationpolicyplatform.org/topic/knowledge-production>

[5] <https://www.innovationpolicyplatform.org/topic/innovation-expenditure>

[6] <https://www.innovationpolicyplatform.org/topic/training>

[7] <https://www.innovationpolicyplatform.org/topic/knowledge-flows>

[8] <https://www.innovationpolicyplatform.org/topic/innovation-survey>

[9] <https://www.innovationpolicyplatform.org/topic/innovation-capabilities>

[10] <https://www.innovationpolicyplatform.org/topic/product-innovation>

[11] <https://www.innovationpolicyplatform.org/topic/total-factor-productivity>

[12] <https://www.innovationpolicyplatform.org/topic/endogeneity>

[13] <https://www.innovationpolicyplatform.org/topic/industry-level>

[14] <https://www.innovationpolicyplatform.org/topic/factor-production>

[15] <https://www.innovationpolicyplatform.org/topic/novelty>

[16] <https://www.innovationpolicyplatform.org/topic/productivity>

[17] <http://dx.doi.org/10.1787/9789264056213-en>