

ECON 33530 - Firm Dynamics and Economic Growth
Winter 2023
Problem Set 1

In this assignment you will replicate some of the key empirical findings of Akcigit and Kerr (2018) published version, from now on referred to as AK. There will be one important difference in the sample used for the analysis: while AK uses firm data from the Census, which is not publicly available, you will use a database of publicly traded firms, Compustat.

Your assignment is to replicate figures 1 and 2 from AK. Below are some guidelines for the assignment. NOTE: not *all* of the steps required to replicate the findings are listed below. You need to take some extra steps, which you will need to figure out yourself.

Optional: if you want to have more fun, you can look at the working paper version (NBER Working Paper #16443), which contains many additional empirical facts, and try to replicate any of them.

1. Download Data.

- (a) Get an account on WRDS (<https://wrds-www.wharton.upenn.edu>) in order to access Compustat.
- (b) Access Compustat - Capital IQ - North America. Select the monthly-updated Fundamental Annual Database.
- (c) Download the variables you need. Hints: select a date range that looks reasonable to you. Choose “gvkey” for company code. Select “Search the Entire Database”. Select “EXCH” and “FIC”. Select the variables “EMP”, “SALE”, “XRD”, “SIC” in the query.
- (d) You will also need patent data and you will need to match patents to their assignee firms in Compustat. The NBER provides a USPTO patent database, as well as a firm identifier already matched to Compustat. You can access patents, citations and Compustat merge identifier at <https://sites.google.com/site/patentdataproject/>.

2. Preliminary analysis.

- (a) Sample Selection. Keep only firms incorporated in the US (hint: use “FIC”) and firms that do business in U.S. dollars (hint: use “CAD”).
- (b) Merge your Compustat sample with the patent database. To limit issues of truncation, limit your analysis to the year 1980-2000, i.e. only consider patents applied for (“apyear”) between 1980-2000. What are the issues related to truncation when it comes to patents?
- (c) Provide a table of summary statistics (this will have to include some of the variables that you will compute in the next steps).
- (d) What is the share of firms which have at least one patent? We will refer to the firms with at least one patent as “innovative firms”.
- (e) Compare your sample of innovative firms to the population of Compustat firms. How do they differ? Think of a way to illustrate the differences (hint: for example, differences in employment size).
- (f) From now on, focus your analysis on the sample of innovative firms.

3. Firm Growth by Firm Size. (Figure 1).

- (a) Build the main variable of employment growth used in the paper, i.e. $EmpGr_{f,t} = (Emp_{f,+1t} - Emp_{f,t})/Emp_{f,t}$. Apply the same winsorization discussed in the paper.
- (b) Replicate Figure 1 and the corresponding regression. On the x-axis, you will use $Emp_{f,t}$. On the y-axis, you will use $EmpGr_{f,t}$. Hint: you can use the command `binscatter`.
- (c) Replicate your graph for the alternative measure of firm growth rate cited in the paper, i.e. $EmpGr_{f,t} = (Emp_{f,+1t} - Emp_{f,t})/(0.5(Emp_{f,+1t} + Emp_{f,t}))$.

4. Innovation Intensity by Firm Size. (Figure 2).

- (a) Compute the number of patents per employment (i.e. total number of patents applied for in a given year by a firm, divided by employment). How lumpy is patenting in your dataset? Decide whether to apply the same five-year windows discussed in the paper and explain why.
- (b) Replicate Figure 2 and the corresponding regression.

5. R&D Intensity by Firm Size.

- (a) In class, we discussed how the relationship between R&D intensity and firm size has evolved over time. We will replicate this finding here.
- (b) Run a regression of log R&D expenditure over log sales *in each year*, with industry fixed effects :

$$\ln(R\&D_{i,j,t}) = \beta_0 + \beta_1 \ln(Sales_{i,j,t-1}) + \delta_j + \epsilon_{i,j,t}.$$

where i indicates a firm, j a sector and t a year. δ_j are sector fixed-effects. Your coefficient of interest is β_1 . You will obtain a different coefficient β_1 for every year in your sample. Plot the coefficients you obtain over time, including the standard errors. Hint: You will have years on the x-axis and β_1 on the y-axis.

- (c) How did the relationship between R&D intensity and firm size evolve over time? Explain.

6. Discussion

- (a) How do your results compare to the findings in the paper? Explain why.
- (b) Do you believe that there are limitations in using Compustat versus Census data for the analysis? If so, what type of limitations?
- (c) What do these findings imply? How are they useful to learn something about firm dynamics and innovation? How could you use them to inform a theoretical model?

References

Akcigit, Ufuk and William Kerr. "Growth through Heterogeneous Innovation," *Journal of Political Economy*, 2018, 126(4): 1374-1443.