**Response to Reviewer 3 of JORS-14-221, "Do State Business Climate Indicators Explain Relative Economic Growth at State Borders?"**

**Thank you for your helpful comments. We have worked to address your comments as well as those of the other reviewers'. Below, please find specific responses to your comments in bold.**

Specific Comments

1. The paper should mention more prominently that the elasticity of business activity at state borders with respect to “business climate” (say business cost measures) does NOT measure the elasticity of business activity overall for the state. The elasticity at state borders shows the response of businesses holding variables constant such as the local labor market’s wages and productivity. But the elasticity overall with respect to state business climate should not hold that constant. Overall for the state, there are likely to be more businesses that are inframarginal, and whose location decisions will not be affected by business cost factors. What this paper is exploring is whether state “business climate factors” will affect a state’s growth if we could imagine the state being identical otherwise to all other states, which is not the case. What is measured here is closer to the “within metropolitan area” elasticity of business activity with respect to business costs, which is likely to be much higher than the “across metropolitan area” elasticity of business costs. This should be emphasized in a revision.

2. As a more optional revision, I was surprised that for all these regressions, there was not also exploration of whether these indices predicted future change in variable y holding constant past change in variable y. This seems like a more intuitive test of the proposition of whether these indices add anything that we don’t already know from looking at past trends.

3. As another more optional revision, I was surprised that there wasn’t exploration of whether the change over time in these indices was related to changes over time in trends in the various dependent variables. If these indices really are measuring things, then changes over time in these indices should be related to changes over time in the growth of the various dependent variables. Alternatively, the dependent variables and the indices could be pooled and state fixed effects added.