THE LOCATION DECISION OF ENTREPRENEURS IN MULTI-STATE METROPOLITAN AREAS (SUMMARY)

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SUMMARY

THE LOCATION DECISION OF ENTREPRENEURS IN MULTI-STATE METROPOLITAN AREAS

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Principal Topic

Where an entrepreneur chooses to start their business will impact customer convenience (if it is an actual storefront), their access to human capital and knowledge, as well as the tax and regulatory burden that they will face (Carlton, 1983; Zucker, et al., 1998). This paper attempts to answer the following research questions: How do the regulatory and tax burdens of states and counties influence where entrepreneurs chose to locate? And how do these factors influence failure?

Generally, we expect that in areas where fixed institutional costs are low, entrepreneurs will be more likely to make Type I errors in that they will start firms with lower expected returns than will entrepreneurs in areas where the fixed institutional costs are higher. Entrepreneurs in high fixed institutional cost areas will commit type II errors and be less likely to open firms that could be successful since they will require higher returns to make the fixed cost investments. Thus there will be fewer firm births in areas with high fixed institutional costs, but also fewer firm deaths.

Method

The data used to test these hypotheses comes from a set of custom tabulations from the U.S Census Bureau's Company Division. Known as the EBD, these tabulations contain data on establishment births and deaths for each county in the United States from 1989-2005 (Plummer et al., 2008). Data from counties in metropolitan areas that encompass two or more states are used in the analysis. The benefit of using border metropolitan counties is that it allows for estimation to be performed using a difference equation. The regulatory environments and taxation levels of states are measured using measures from the Economic Freedom of North America index (Karabegovic et al., 2005).

Results and Implications

The results of this research will have implications for public policy. If the regulatory and tax environment of a metropolitan area in one state leads to a large number of new firm births relative to metropolitan counties in its neighboring state(s), then that regulatory and tax environment may be something that other states may want to imitate.

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