FIRM SIZE DISTRIBUTION AND EMPLOYMENT FLUCTUATIONS: THEORY AND EVIDENCE

Holger Görg , Philipp Henze , Viroj Jienwatcharamongkhol , Daniel Kopasker , Hassan Molana , Catia Montagna , Fredrik Sjöholm

PII: S1090-9443(17)30272-7
DOI: 10.1016/j.rie.2017.09.002
Reference: YREEC 742

To appear in: *Research in Economics*

Received date: 30 August 2017
Revised date: 5 September 2017
Accepted date: 5 September 2017

FIRM SIZE DISTRIBUTION AND EMPLOYMENT FLUCTUATIONS: THEORY AND EVIDENCE

Holger Görg[(a)], Philipp Henze[(a)], Viroj Jienwatcharamongkhol[(b)], Daniel Kopasker[(d)], Hassan Molana[(c)], Catia Montagna[(d)], Fredrik Sjöholm[(e)]

September 2017

Abstract

We show that the firm-size *distribution* is an important determinant of the relationship between an industry's employment and output. A theoretical model predicts that changes in demand for an industry's output have larger effects on employment, resulting from adjustments at both the intensive and extensive margin, in industries characterised by a distribution that has a lower density of large firms. Industry-specific shape parameters of the firm size distributions are estimated using firm-level data from Germany, Sweden and the UK, and used to augment a relationship between industry-level employment and output. The empirical results align with the predictions of the theory.

JEL codes: E20; E23; L20

Keywords: Firm distribution, Firm size, Employment, Fluctuations

Acknowledgements: We thank an anonymous referee and Federico Etro for helpful comments and suggestions. This research was supported by the NORFACE ERA-NET (New Opportunities for Research Funding Agency Co-operation in Europe Network) *Welfare State Futures Programme*, Grant Number 462-14-120. We gratefully acknowledge the professional assistance of UK Data Service, http://doc.ukdataservice.ac.uk/doc/6644/mrdoc/UKDA/UKDA_Study_6644_Information.htm. The usual disclaimer applies.

Corresponding Author: Catia Montagna, Economics, Business School, University of Aberdeen, Aberdeen AB24 3QY, UK.

[(a)] University of Kiel and Kiel Institute for the World Economy; [(b)] Lund University; [(c)] University of Dundee and the Scottish Institute for Research in Economics; [(d)] University of Aberdeen and the Scottish Institute for Research in Economics; [(e)] Lund University and the Research Institute of Industrial Economics, Stockholm.