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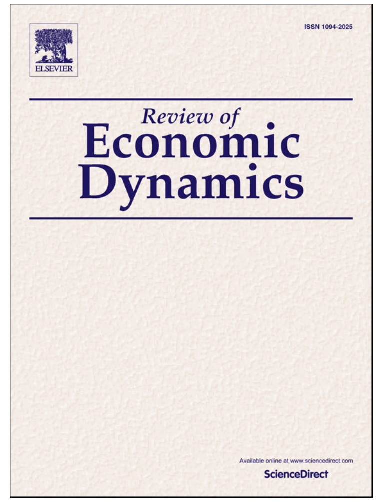

Firm Learning and Growth

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Firm Learning and Growth *

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Abstract

We study the implications of introducing learning (Jovanovic, 1982) in a standard monopolistically competitive environment with firm productivity heterogeneity. Our setup predicts that firm growth rates decrease with age, holding size constant, and decrease with size, holding age constant, a fact that models focusing on idiosyncratic productivity shocks have difficulty matching. We characterize the planner's problem and show that relative quantities between any two firms are the same in both planner's allocation and the decentralized economy. As a result, any inefficiency is driven by a discrepancy in the firm entry and exit thresholds. We calibrate the model using Colombian plant-level data and demonstrate how policies directly affecting firm entry and exit can be welfare enhancing. In particular, age-dependent subsidies allow young firms to avoid early exit and thus benefit consumers through access to a larger number of varieties.

Keywords: Learning, Firm Growth, Firm Subsidies, Welfare.

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