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CEO talent, CEO compensation, and product market competition*

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Abstract

We develop a structural industry equilibrium model to show how competitive chief executive officer (CEO)-firm matching and product markets jointly determine firm value and CEO pay. We analytically derive testable implications for the effects of product market characteristics on firm size, CEO pay, and CEO impact on firm value. CEO talent matters more in more competitive markets with greater product substitutabilities. Our CEO impact estimates are much higher than those obtained by previous structural approaches that abstract away from CEO market segmentation. The estimates differ across industries primarily due to variation in product market competition, rather than variation in the CEO talent distribution.

JEL Classifications: G34, D21, D22, D43, J33, L11, M12

Key Words: CEO Talent, CEO Pay, Product Market Competition, Structural Estimation

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