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Exit dynamics of start-up firms: Structural estimation using indirect inference

by

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ABSTRACT

We estimate by means of indirect inference a structural economic model where firms' exit and investment decisions are the solution to a discrete-continuous stochastic dynamic programming problem. Our method solves the main difficulty of simulation-based inference in structural discrete-continuous choice models, namely that the simulated trajectories are discontinuous functions of the structural parameters. Estimating the model on all start-up firms in the Norwegian manufacturing sector, we find that if the expected value of continuing production is persistently low relative to the expected value of exit, the firm has a high probability to exit.

JEL classification: C33, C51, C61, C72, D21

Keywords: Indirect inference, auxiliary model, continuous-discrete choice, Markovian decision model, investment, cost of capital adjustment, firm exit

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