Contribution associée

The Productivity Advantages of Large Markets: Distinguishing Agglomeration from Firm Selection

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Firms and workers are more productive on average in larger markets. Two explanations have been offered: agglomeration economies (larger markets promote interactions that increase productivity) and firm selection (larger markets toughen competition allowing only the most productive to survive).

To distinguish between them, we develop a model that nests a generalised version of a seminal firm selection model and a standard model of agglomeration. Stronger selection in larger markets left-truncates the productivity distribution whereas stronger agglomeration right-shifts the distribution. We use this prediction to assess the relative importance of agglomeration and firm selection using French establishment-level data and a new quantile approach.

Spatial productivity differences in France are mostly explained by agglomeration.

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