

NBER Entrepreneurship Research Boot Camp

Summer 2009

Reading List

This reading list contains all the required and recommended readings for each of the sessions. “Required reading” means that every student is expected to have carefully read and analyzed these papers. “Recommended readings” means that students should have made an effort to have a look at these papers.

Wednesday, July 22nd

Morning session with Josh Lerner (HBS)

The decision to become an entrepreneur: Behavioral and peer effects

Required Readings

Behavioral entrepreneurship

Bernardo, Antonio, and Ivo Welch, 2001, On the evolution of overconfidence and entrepreneurship, *Journal of Economics & Management Strategy* 10, 301-30.

Camerer, Colin F., and Dan Lovallo, 1999, Overconfidence and excess entry: An experimental approach, *American Economic Review* 89, 306-18.

Hamilton, B. H., 2000, Does entrepreneurship pay? An empirical analysis of the returns to self-employment, *Journal of Political Economy* 108:3, 604-31.

Landier, Augustin, and David Thesmar, 2007, Contracting with optimistic entrepreneurs: theory and evidence, *Review of Financial Studies*, forthcoming.

Moskowitz, Tobias J., and Annette Vissing-Jorgensen, 2002, The returns to entrepreneurial investment: a private equity premium puzzle? *American Economic Review* 92, 745-78.

Peer effects and entrepreneurship

Giannetti, Mariassunta, and Andrei Simonov, 2007, Social interactions and entrepreneurial activity, Unpublished working paper, Stockholm School of Economics.

Lerner, Josh and Ulrike Malmendier, 2007, With a little help from my (random) friends: Success and failure in post-business school entrepreneurship, Unpublished working paper, Harvard University.

Nanda, Ramana, and Jesper Sorensen, 2007, Peer effects and entrepreneurship, Unpublished working paper, Harvard University and Stanford University.

Wednesday, July 22nd

Afternoon session with Steven Kaplan (Chicago GSB)

What Do Venture Capitalists Do?

Required readings

Hart, Oliver, 1995, "Chapter 5: Theories of Financial Contracting and Debt." In: Firms, Contracts, and Financial Structure. Clarendon Lectures in Economics. Oxford University Press. Pages 95-125.

Hart, Oliver, 2001, "Financial Contracting," Journal of Economic Literature, Vol. 39, No. 4, pp. 1079-1100

Hellmann, Thomas and Manju Puri, 2002, "Venture Capital and the Professionalization of Start-up Firms: Empirical Evidence" The Journal of Finance, 57(1), 169-197

Kaplan, Steven, Berk Sensoy, and Per Stromberg, 2009, "Should Investors Bet on the Jockey or the Horse? Evidence from the Evolution of Firms from Early Business Plans to Public Companies?" Journal of Finance.

Kaplan, Steven, and Per Strömberg, 2001, "Venture Capitalists As Principals: Contracting, Screening, and Monitoring," American Economic Review Papers and Proceedings.

Kaplan, Steven, and Per Strömberg, 2003, "Financial Contracting Theory Meets the Real World: Evidence from Venture Capital Contracts," Review of Economic Studies 70, 281-315.

Kaplan, Steven, and Per Strömberg, 2004, "Characteristics, Contracts, and Actions: Evidence from Venture Capital Analyses," Journal of Finance 59, 2177-2210.

Sorensen, Morten, 2007, "How smart is the smart money? A two-sided matching model of venture capital" *Journal of Finance* 62:6, 2725-62.

Recommended Readings

Hellmann, Thomas, 2006, "IPOs, Acquisitions and the Use of Convertible Securities in Venture Capital," *Journal of Financial Economics*, 81(3), 649-679.

Hsu, David, What Do Entrepreneurs Pay for Venture Capital Affiliation?, *Journal of Finance*, 59: 1805-1844, August 2004 (Same as in Stuart's required readings!)

Inderst, Roman and Holger Müller, 2004. "The effects of capital market characteristics on the value of start-up firms." *Journal of Financial Economics* 72, no. 2, pp. 319-356.

Kaplan, Steven, Frédéric Martel, and Per Strömberg, 2007, "How do legal differences and experience affect financial contracts?," *Journal of Financial Intermediation* 16(3), 273-311.

Lerner, Josh, and Antoinette Schoar, 2005, "Does Legal Enforcement Affect Financial Transactions?: The Contractual Channel in Private Equity", *Quarterly Journal of Economics*, 120, 223-246.

Sahlman, William, 1990, "The structure and governance of venture capital organizations," *Journal of Financial Economics* 27, 473-521.

Thursday, July 23rd

Morning session with Enrico Perotti (University of Amsterdam)

Ideas, Entrepreneurship, and Political Economy

Required readings

Origins of Ideas

Anton, J.J. and D.A. Yao. 1994. "Expropriation and Inventions: Appropriable Rents in the Absence of Property Rights." *American Economic Rev.* 84 190-209.

Hellmann, Thomas, and Enrico Perotti, 2007, The circulation of ideas in firms and markets, Unpublished working paper, Universities of British Columbia and Amsterdam.

Ederer, Florian and Gustavo Manso "Is Pay-for-Performance Detrimental to Innovation?," MIT working paper, 2008

Political Economy of Entry

Benmelech, Efraim and Tobias Moskowitz (2007), 'The Political Economy of Financial Regulation: Evidence from U.S. State Usury Laws in the 19th Century', Harvard and Chicago University working paper

Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer (2002), 'The Regulation of Entry', *Quarterly Journal of Economics*, vol 117:1, pp. 1-37.

Perotti, Enrico and Paolo Volpin (2008), 'Politics, Investor Protection and Competition', LBS and Amsterdam working paper

Recommended readings

Origins of Ideas

Aghion, Philippe, and Jean Tirole, 1994, On the management of innovation, *Quarterly Journal of Economics* 109, 1185–207.

Anton, James J., and Dennis A. Yao, 1995, Start-ups, spin-offs, and internal projects, *Journal of Law, Economics and Organization* 11, 362-78.

Bhide, Amar, 2000, *The Origin and Evolution of New Business*, New York: Oxford University Press, Chapters 1 and 2.

Bruno Biais and Enrico Perotti, 2008, Entrepreneurs and new ideas, *Rand Journal of Economics*, vol 39 no. 4, Winter, 1105-1125

Manso, Gustavo, "Motivating Innovation", MIT working paper, 2008

Gompers, Paul, Josh Lerner, and David Scharfstein, 2005, Entrepreneurial spawning, *Journal of Finance* 60, 577-614.

Landier, A. and D. Thesmar, 2008, "Contracting with Optimistic Entrepreneurs: Theory and Evidence" *Review of Financial Studies*, forthcoming.

Political Economy of Entry

Black, S., and P. Strahan, "Entrepreneurship and Bank Credit Availability" *Journal of Finance*, 57(6), 2807-2833.

Engerman, Stanley, and Kenneth Sokoloff (2002), 'Factor Endowments, Inequality, and Paths of Development Among New World Economies' NBER Working Paper No. 9259.

Haber, Stephen and Enrico Perotti (2008), 'The Political Economy of Financial Systems', Stanford and Amsterdam University working paper.

Kroznor, Philip and Randall Strahan (1999), 'What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions', *Quarterly Journal of Economics*, volume 114, pp. 1437-1467.

Lerner, Josh, and Antoinette Schoar, 2005, "Does Legal Enforcement Affect Financial Transactions?: The Contractual Channel in Private Equity", *Quarterly Journal of Economics*, 120, 223-246.

Perotti, Enrico and Paolo Volpin (2007), 'Lobbying on Entry', CEPR Working Paper 4519.

Rajan and Zingales (2003), 'The Great Reversals: the Politics of Financial Development in the Twentieth Century', *Journal of Financial Economics*, vol 69:1, pp.559-586.

Rajan, Raghuram and Rodney Ramcharan (2007), 'Landed Interests and Financial Underdevelopment in the United States', working paper.

Thursday, July 24th

Afternoon session with Toby Stuart (HBS)

Networks in entrepreneurship

Required readings:

Azoulay, P., C Liu, and T.E. Stuart, (2009) "Social influence given (partially) deliberate matching," Working paper.

Baron, J, M. Hannan, & M.D. Burton, (1999) "Building the Iron Cage: Determinants of Managerial Intensity in the Early Years of Organizations" *American Sociological Review*, 64(August): 527-547.

Hochberg, Y, Ljungqvist A. and Yang Lu (2004) Whom You Know Matters: Venture Capital Networks and Investment Performance." *Journal of Finance*, Vol. 62

Hsu, David. (2004). "What Do Entrepreneurs Pay for Venture Capital Affiliation?," *Journal of Finance*, **59**: 1805-1844.

Sorenson, O. and T. E. Stuart (2001). "Syndication networks and the spatial distribution of venture capital investments." *The American Journal of Sociology* **106**(6): 1546-1588.

Stuart, T. E., H. Hoang, & R. Hybels, (1999). "Interorganizational endorsements and the performance of entrepreneurial ventures." *Administrative Science Quarterly* **44**(2): 315-349.

Recommended readings:

Azoulay, P., W. Ding and T. E. Stuart, "The impact of academic patenting on the on the rate, quality, and direction of (public) research output." *Journal of Industrial Economics*, 2009.

Burt, R. (2004). "Structural Holes and Good Ideas." *American Journal of Sociology* 110(2): 349-399.

Munshi K. (2003). "Networks in the modern economy: Mexican migrants in the US labor market", *Quarterly Journal of Economics* **118** (2): 549-599.

Powell, WW., K. Koput and L. Smith-Doerr (1996). "Interorganizational Collaboration and the Locus of Innovation: Networks of Learning in Biotechnology," *Administrative Science Quarterly*, v41 n1 p116-45 Mar

Ruef, M., Aldrich, H.E., & Carter, N.M. (2003). The structure of founding teams: Homophily, strong ties, and isolation among U.S. entrepreneurs. *American Sociological Review*, 68, 195-222.

Stuart, T. E., and W. Ding, (2006). "When do Scientists Become Entrepreneurs? The Social Structural Antecedents of Commercial Activity in the Academic Life Sciences." *American Journal of Sociology* **112** (1).

Waldinger, R. (1995). "The Other Side of Embeddedness – A Case Study of the Interplay of Economy and Ethnicity," *Ethnic and Racial Studies*, **18** (3): 555-580.

Friday, July 24th

Morning session with John Haltiwanger (University of Maryland)

Productivity and entrepreneurship

The focus of the lecture will be on what we know about the contribution of entry and young firms to productivity and job growth. An overview of theoretical underpinnings as well as the empirical evidence will be presented. In addition, both discussion and material about data sources that can be used to study entry and the productivity and survival dynamics of young firms will be provided.

Required Readings:

Davis, S., J. Haltiwanger, and R. Jarmin, "Young Businesses, Economic Churning, and Productivity Gains," Kauffman Foundation, June 2008.

- Ericson, R. A. Pakes, "Markov Perfect Industry Dynamics: A Framework for Empirical Work," Review of Economic Studies, Vol. 62(1), 1995, 53-82.
- Foster, L., J. Haltiwanger and C.J. Krizan, "Market Selection, Reallocation, and Restructuring in the U.S. Retail Trade Sector in the 1990s," Review of Economics and Statistics, 2006.
- Foster, L., J. Haltiwanger, and C. Syverson, "Reallocation, Firm Turnover and Efficiency: Selection on Productivity or Profitability," American Economic Review, March 2008.
- Jovanovic, B., "Selection and the Evolution of Industry," Econometrica, 50(3), 649-670, 1982.
- Melitz, M. and G. Ottaviano "Market Size, Trade, and Productivity", Review of Economic Studies, January 2008.

Recommended Readings:

- Asplund, M. and V. Nocker. "Firm Turnover in Imperfectly Competitive Markets." Review of Economic Studies, 73(2): 295-327, 2006.
- Baily, M., C. Hulten, and D. Campbell. "Productivity Dynamics in Manufacturing Establishments." Brookings Papers on Economic Activity: Microeconomics, 187-249, 1992.
- Bartelsman, E. and M. Doms. "Understanding Productivity: Lessons from Longitudinal Microdata." Journal of Economic Literature, 38(3): 569-595, 2000.
- Davis, S., and J. Haltiwanger, "Gross Job Flows," in Ashenfelter and Card (eds.), Handbook of Labor Economics, North-Holland: Amsterdam, 1999.
- Davis, S., J. Haltiwanger, R. Jarmin, C.J. Krizan, J. Miranda, A. Nucci, and K. Sandusky. "Measuring the Dynamics of Young and Small Businesses: Integrating the Employer and Nonemployer Universes." NBER Working paper. No. 13226. Forthcoming in Timothy Dunne, J. Bradford Jensen, and Mark J. Roberts (eds.), *Producer dynamics: new evidence from micro data*. 2009
- Dunne, T. M. Roberts, and L. Samuelson. "Patterns of Firm Entry and Exit in U.S. Manufacturing Industries." RAND Journal of Economics, 19(4): 495-515, 1988.
- Hopenhayn, H. "Entry, Exit, and Firm Dynamics in Long Run Equilibrium." Econometrica, 60(5): 1127-1150, 1992.

Friday, July 24th

Afternoon session with Scott Stern (Northwestern)

Start-Up Commercialization Strategy and the Market for Ideas

Required readings

Arora, A. 1995. "Licensing Tacit Knowledge: Intellectual Property Rights and the Market for Know-How", *Economics of Innovation and New Technology* 4 41-49.

Arora, A., Fosfuri, A., and A. Gambardella (2001). "Markets for Technology and their Implications for Corporate Strategy," *Industrial and Corporate Change*, 10(2): 419-451.

Gans, J. and S. Stern (2003). "The Product Market and the Market for Ideas: Commercialization Strategies for Technology Entrepreneurs," *Research Policy*, 32:333-350

Gans, J. (2008). "Start-up Commercialisation Strategy and Innovative Dynamics," mimeo, <http://works.bepress.com/cgi/viewcontent.cgi?article=1004&context=joshuagans>

Hellmann, T. (2007). "The role of patents for bridging the science to market gap" *Journal of Economic Behavior and Organization*, 2007, 63(4), August, 624-657.

Lerner, J. and R. Merges. 1998. "The Control of Technology Alliances: An Empirical Analysis of the Biotechnology Industry," *Journal of Industrial Economics*. 46 125-156.

Recommended Readings

Anton, J.J. and D.A. Yao. 1994. "Expropriation and Inventions: Appropriable Rents in the Absence of Property Rights." *American Economic Rev.* 84 190-209.

Arora, A., A. Fosfuri, and A. Gambardella. 2001. *Markets for Technology: The Economics of Innovation and Corporate Strategy*. Cambridge, MA: MIT Press.

Baumol, W., "Entrepreneurship, Innovation and Growth: The David-Goliath Symbiosis," <http://www.econ.nyu.edu/user/baumolw/sfg.pdf>

Gans, J.S., and S. Stern. 2009. "Is there a market for ideas?" Working paper

Gans, J.S., D.H. Hsu and S. Stern. 2002. "When Does Start-up Innovation Spur the Gale of Creative Destruction?" *RAND Journal of Economics* 33 571-86.

Gans, J. D.H. Hsu and S. Stern (2008). "The Impact of Uncertain Intellectual Property Rights on the Market for Ideas," *Management Science*, forthcoming.

Hellmann, T, and M. Puri (2000). "The Interaction between Product Market and Financing Strategy: The Role of Venture Capital" *Review of Financial Studies*, 13(4): 959-984.

Henderson, R. (1993). "Underinvestment and Incompetence as Responses to Radical Innovation: Evidence from the Photolithographic Equipment Industry," 24(2): 248-270.

Hsu, D. (2006). "Venture Capitalists and Cooperative Start-up Commercialization Strategy," *Management Science*, 52 204-219

Kamien, M. (1992). "Patent Licensing," *Handbook of Game Theory*

Lamoreaux, N. and K. Sokoloff (2001). "Market Trade in Patents and the Rise of a Class of Specialized Inventors in the 19th Century United States," *American Economic Review Papers and Proceedings*, 91(2): 39-44.

Levine, A. (2007). "Licensing and Scale Economies in the Biotechnology Pharmaceutical Industry," Mimeo, Stanford University.

Teece, D. 1986. "Profiting from Technological Innovation: Implications for Integration, Collaboration, Licensing and Public Policy." *Res. Policy* 15 285-305.

Saturday, July 25th

Morning session with Luis Cabral (NYU)

Firm entry and growth

This lecture will focus on three related topics on firm entry and firm growth.

1. The determinants of entry and market structure: market size and technology; exogenous and endogenous entry costs; toughness of competition; other factors.
2. New firm growth. What happens to firms after they enter: the role of sunk costs and financing constraints.
3. Entry and welfare. Does the "invisible hand" lead to an optimal number and variety of entrants?

I will not follow the readings in great detail, though they do form the backbone of each of the three topics: Sutton and Bresnahan-Reiss for 1; Evans, Cabral, and Cabral-Mata for 2; and Mankiw-Whinston for 3.

Required readings

Bresnahan, Timothy, and Peter Reiss (1991), "Entry and Competition in Concentrated Markets," *Journal of Political Economy* 99, 977-1009.

Cabral, Luís (1995), "Sunk Costs, Firm Size and Firm Growth," *Journal of Industrial Economics* 43, 161-172.

Cabral, Luís, and José Mata (2003), "On the Evolution of the Firm Size Distribution: Facts and Theory," *American Economic Review* 93, 1075-1090.

Evans, David S (1987), "Tests of Alternative Theories of Firm Growth," *Journal of Political Economy* 4, 657-674.

Mankiw, N. Gregory, and Michael D. Whinston (1986), "Free Entry and Social Inefficiency," *Rand Journal of Economics* 17, 48-58.

Sutton, John (1991), *Sunk Costs and Market Structure*, Cambridge, Mass: MIT Press, Part I.

Recommended readings

Albuquerque, Rui, and Hugo A. Hopenhayn (2004), "Optimal Lending Contracts and Firm Dynamics," *Review of Economic Studies* 71, 285-315.

Angelini, Paolo, and Andrea Generale (2008), "On the Evolution of Firm Size Distributions," *American Economic Review* 98, 426-438.

Geroski, Paul A. (1995), "What Do We Know About Entry?," *International Journal of Industrial Organization* 13, 421-440.

Klepper, Steven (1996), "Entry, Exit, Growth, and Innovation over the Product Life Cycle," *American Economic Review* 86, 562-583.

Saturday, July 25th

Afternoon session with Antoinette Schoar (MIT Sloan)

Returns to Private Equity

Required readings

Berk, Jonathan and Richard Green (2004) "Mutual Fund Flows and Performance in Rational Markets." *Journal of Political Economy*, 112: 1269-1295.

Gompers, Paul and Josh Lerner (2000) "Money Chasing Deals?: The Impact of Fund Inflows on the Valuation of Private Equity Investments", *Journal of Financial Economics* 55: 281-325.

Kaplan, Steve and Antoinette Schoar (2005) "Private Equity Performance: Returns, Persistence and Capital Flows," *The Journal of Finance* 60: 1791-1823.

Kortum, Samuel and Josh Lerner (2000) "Assessing the Contribution of Venture Capital to Innovation," *Rand Journal of Economics* 31: 674-692.

Lerner, Josh, Antoinette Schoar and Wan Wong (2007) "Smart Institutions, Foolish Choices?: The Limited Partner Performance Puzzle", *Journal of Finance*.

Recommended Readings

Davis, Stephen, John Haltiwanger, Ron Jarmin, Josh Lerner and Javier Miranda (2007), "Private Equity and Employment", CES Discussion paper 08-07.

Gottschalg, Oliver and Ludovic Phalippou (2008) "The Performance of Private Equity Funds", *Review of Financial Studies*, forthcoming

Kaplan, Steven N. (1989), "The Effects of Management Buyouts on Operating Performance and Value," *Journal of Financial Economics* 24: 217-254.

Murphy, Kevin M., Andrei Shleifer, and Robert W. Vishny (1991), "The Allocation of Talent: Implications for Growth", *Quarterly Journal of Economics* 106, 503-530.

Sahlman, William (1990) "The Structure and Governance of Venture Capital Organizations," *Journal of Financial Economics* 27: 473-521.

Shleifer, Andrei, and Lawrence Summers (1988) "Breach of Trust in Hostile Takeovers" in Alan J. Auerbach, editor, *Corporate Takeovers: Causes and Consequences*. Chicago: University of Chicago Press.