Discussion of

Entrepreneurship, Financial Frictions, and the Market for Firms

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A Short Summary

1.Empirical Evidence on the Existence/Trend of *Market for Firms*

- ~20% of entrepreneurs acquired their business by purchasing an existing firm
- >60% of firm buyers have never been entrepreneurs before current purchasing
- ~10% declining of the *Market for Firms* from 1989 to 2016
- firms being traded are small, young, and higher APK

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2.A GE Model of Entrepreneurship, Financial Fraction, and Trade of Firms

- **Gain from Trade through easing the financial constraints of productive firms**
- Closing this market creates 6% entrepreneurs' output loss
- Easing credit condition explains the declining of the *Market for Firms* from 1989 to 2016

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A very interesting paper & the *Market for Firms* is an interesting market to look at!

KEY in Guntin-Kochen's Theory of *Market for Firms*

What are the key ingredients of the market for firms? (credit channel)

- Item for Trade: productivity $\tilde{z}$ of a DRS production unit (the optimal scale $k^*(\tilde{z})$)

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What's happening on the market for firms?

- **The very "poor" & "productive" owners selling to the "rich" & "unproductive" buyers**

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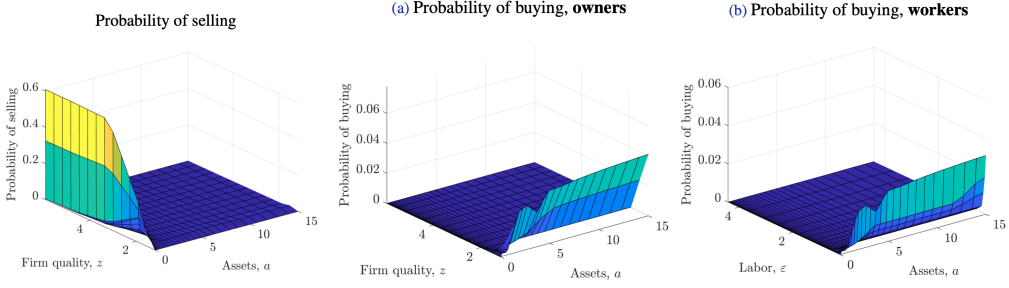

Discussions in Two Directions

- How does this Market help for Resource Allocation?
- What does this Market mean for Firm Dynamics?
- Minor Comments

Resource Allocation: How's the *Market for Firms* compare to the *Market for ...*?

Modern economics is all about resource allocation:

$$Y = AK^{\alpha}L^{\eta},$$

Three markets are very well-studied:

- Market for K: Lumpy Inv. / Used-Capital Trade / Inv. Hubs / ...
- Market for L: Labor Search & Match / Implicit Contract / ...
- Market for A: R&D Inputs / Patent & Idea Trade / ...

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What is similar? (Gain and FFs)

- **Gain from Trade through allocating resources to more productive firms**
- Financial Friction is usually one of the non-negligible frictions

Resource Allocation: How's the *Market for Firms* compare to the *Market for ...*?

What is different? (Other Forms of Fractions)

- mergers and acquisitions literature (Finance) shows that "firm-shopping" is super complex:
  - information frictions on z;
  - management issues;
  - reallocation of all factors A, K, L;
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  - product differentiation;
  - strategic integration;
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Atomic firms (a firm is just a number of z)

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- Empirically, indirect evidence of financial fraction: age, size, & APK
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  (These other fractions hold back *Trade*. I am very interested to see the fights.)
  (If FF is not large enough to overcome these fractions, what other motivations are so strong?)

Firm Dynamics: What stage does the *Market for Firms* fit in?

An earlier stage market compare to M&As literature

- This Market: 60% buyers are workers + Most units are traded at age 0
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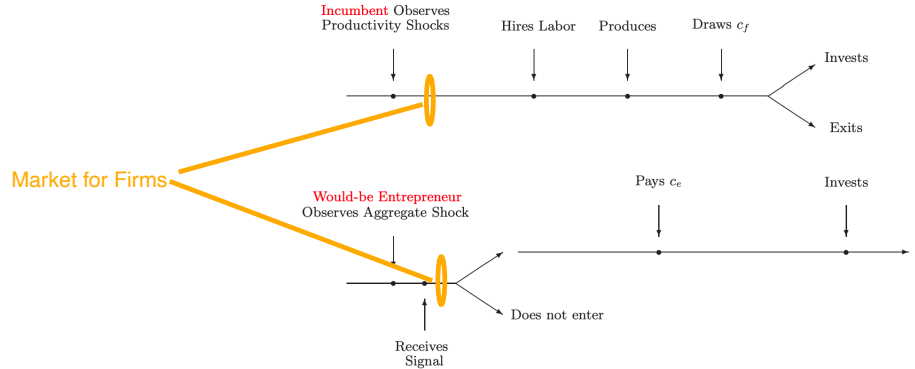
When does this Market enter in Firm Dynamic literature such as Clementi-Palazzo (2016)?



Firm Dynamics: Does the *Market for Firms* play an aggregate role?

The aggregate application of *Market for Firms* in GK

	Baseline economy	Partial $(\alpha_o, \alpha_w)/2$	Complete $(\alpha_o, \alpha_w) = \mathbf{0}$
Fract. firms purchased	0.19	0.11	0.00
Fract. firms purchased by workers	0.64	0.65	-
Fract. entrepreneurs	0.09	0.08	0.08
Δ Output		-0.1%	-0.2%
Δ Output, public		2.0%	4.9%
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Does it mean this market is negligible at aggregate level?

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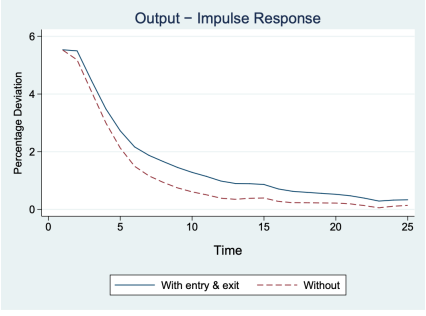

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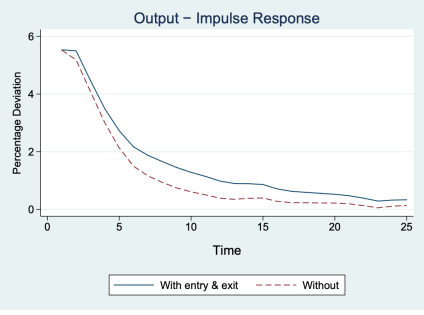

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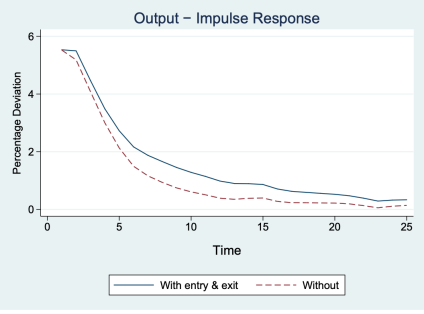

***Market for Firms* could play an essential role for more efficient Entry&Exit allocation.**
(It's interesting to see how this *Market* help to select/"rescue" productive startups.)
(And generate decent magnitude in the cumulative dynamics through firm growth.)

Minor Comments

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$$z' = \begin{cases} z & \text{with pr. } \gamma \\ z' \sim \mathcal{P}(z_{min}, \eta_z) & \text{with pr. } (1-\gamma) \end{cases}$$

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- **solider facts are helpful**: better access to firm balance sheets and more owner info. (i.e., Orbis Ownership Database) could help us to understand the *Market for Firms* better

Final Remarks

Guntin-Kochen is a very interesting paper & *Market for Firms* is an interesting market!

- For Resource Allocation, it helps for better reallocate resources.
- For Firm Dynamics, it may help for more efficient Entry&Exit allocation.

An open avenue for further research

- More empirical findings on how this market works.
- Alternative modeling to account for other fractions and firm dynamics.
  (of course based on new discovers)
- Aggregate implications of this market for macro fluctuations.