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Skewed distributions of firm sizes — an evolutionary perspective

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Abstract

The fact that business firms sizes show long-term stable skewed distributions is a well-established 'stylized fact' of industrial demography. One of the plausible explanations of this phenomenon is based on Gibrat's law of proportionate effect. Other explanations focus on optimal allocation of scarce factors of production. This paper proposes a different explanation, based on evolutionary mechanisms of industrial development, especially those related to search for innovation and selection. The outline of the evolutionary model of industrial dynamics is presented in the first section of the paper. In the second, part a simulation study of the model, focused on the necessary conditions of emergence of skewed firm size distributions, is presented. It is shown how skewed size distributions emerge if we allow firms to search for innovation and allow for entry of new firms. © 1998 Elsevier Science B.V.

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1. Introduction

Kaldor (1985) argued that "we do not really know the causes of the uniformity in pattern which emerged in the last 50 years, under which not more than three large firms accounts for the great majority of total sales (perhaps 70 to 80% the total or more), while the remainder is divided among a large number of small firms (normally, several hundreds). This pattern emerged in so many different industries — like manufactures of automobiles and other durable consumer goods newspapers or advertising agencies — that there must be some explanation in the dynamics of

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