



Halle Institute for Economic Research
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IWH Research Seminar in Economics

June 17, 2019, 14:15–15:45, conference room, ground floor



Self-Employment Dynamics and the Returns to Entrepreneurship

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(together with Christopher T. Stanton, Harvard Business School, NBER, and CEPR)

If workers are initially uncertain about their entrepreneurial abilities, then the lifetime value of trying self-employment, with the option to return to paid work, exceeds the expected static value of working for oneself in a single year. After documenting that moves from self-employment to paid work are common among men in the PSID, we estimate the expected returns to entrepreneurship within a dynamic lifecycle model that allows for non-random selection and gradual learning about entrepreneurial earnings. The option to abandon self-employment and return to paid work increases the lifetime value of entrepreneurship relative to earnings in the cross section. We use the model to evaluate policies that change incentives for experimentation with self-employment.

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