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Reconciling the Evidence on the Knowledge-capital Model

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Abstract

The knowledge-capital model (KC model), described in [Markusen \(2002\)](#), encompasses both market size (horizontal) as well as factor endowment (vertical) explanations to why multinational production occurs. Although the KC model seems intuitively appealing the empirical support has, so far, been mixed and even confused. In this study we find strong, robust and consistent support for the KC model. In contrast to previous studies, our empirical specification is directly mapped from theory. We also use an enlarged dataset, where the data coverage is significantly improved. Our results also give estimated surfaces remarkably similar to theoretical simulations of the KC model. In addition, the results give important insights into why previous studies have yielded such diverse results.

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