Applied Economics ›
Volume 37, 2005 - Issue 21

Original Articles

Tangible and intangible sunk costs and the entry and exit of firms in a small open economy: the case of Austria

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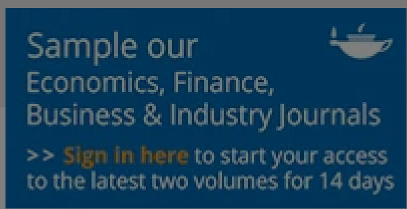
Pages 2429-2443 | Published online: 02 Aug 2010

Cite this article https://doi.org/10.1080/00036840500365850



Abstract

The paper provides evidence on the role of sunk costs as mobility barriers. An empirical study of the Austrian manufacturing industry explicitly considers sunk costs related to investment in dedicated intangible assets. The results confirm the relevance of sunk costs as mobility barriers, their symmetry with respect to entry and exit, and show that the influ

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This rese ... nt in Europe at the Vi ... iläumsfonds (Project Nr. 9800) is gratefully acknowledged. The author thanks Christian Bellak, Thomas Grandner, Dieter Gstach, Christian Ragacs and the participants of the AssistentInnenseminar of the Department of Economics of the Vienna University of Economics for helpful comments and suggestions. The usual disclaimer applies.

Notes

[1] Surveys are provided by Siegfried and Evans (1994), Geroski (1995) and Caves (1998).

[2] However, we will use price cost margins to study the robustness of our results.

[3] Albeit no exact correspondence between KS and ISIC Rev. 2 or NACE exists, it is approximately comparable to a two-digit ISIC and classifies the firms according to activities (Pfaffermayer, 1999).

[4] $EX_{i,t} = N_{i,t-1} + EN_{i,t} - N_{i,t}$, where $EX_{i,t}$ is the number of exits, $N_{i,t}$ the number of active membership firms and $EN_{i,t}$ the number of entries in time t for industry i. This procedure was suggested by the evidence that most entrants have enough financial means to survive their first year (Santarelli and Vivarelli, 2002).

[5] The use of value added over gross production measure is not without problems, as profitability is a main component of value added. However, the adjustment proposed by Tucker and Wilder (1977) could not be applied, as no reliable information regarding net income and income taxes were available. In the regression analysis we include the growth rate of profitability and we provide results where price–cost margins are included as indicators of profitability.

[6] A rejection of the importance of sunk costs would not invalidate the theory of sunk costs, it ... t. Neverthe ... utput characte ...

[7] Gre ... ltivariate OLS ... a linear function ... ationship is monoton ... idered in the pres ...

[8] In order to check this result we used the regression based approach and an LM test (Cameron and Trivedi, 1986). Both tests confirmed the results of the LR test reported in the regression tables.