"Heavier than Air? Knowledge Transmission Within the Multinational Firm"

Abstract

To what extent do barriers to knowledge transmission influence a firm’s decision to expand? Using a worldwide dataset on foreign subsidiaries, I show that multinational corporations are, on average, about 4 percentage points less likely to horizontally expand a sector that is 10% higher in the knowledge intensity scale. Evidence shows that when firms do expand their knowledge-intensive activities they tend to do so at shorter geographic distances. Locating a foreign subsidiary in the same time zone as its headquarters tends to reduce barriers to knowledge transmission by easing communication and effectively reducing the distance between them by, on average, 3500 Km. The empirical results can be explained through an expansion of the theoretical framework developed by Helpman, Melitz and Yeaple (2004). The new model incorporates the cost of knowledge transmission for firms engaged in foreign direct investment, which affects the mechanisms of the proximity-concentration hypothesis.

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