

DIW Applied Micro Seminar

Adjustment Cost and Market Structure Dynamics in High-Tech Services, 2016

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Abstract:

Competition in non-price variables plays a key role for market structure dynamics in high-tech services. The paper uses a dynamic oligopoly model to study the impact of demand and productivity shocks on adjustment costs and market structure in the high-tech services, which consist of labor intensive firms that have highly skilled labor. Using an extensive data on the Swedish software industry, the paper finds significant changes in set-up labor and investment costs after an aggregate demand shock and firm specific productivity shocks. Counterfactual policy experiments show the changes in welfare due to different policies and how software firms can compensate negative demand shocks. The findings contribute to the understanding of the impact of a combination of shocks on highly skilled jobs across different regional markets and on industry dynamics.