RESEARCH STATEMENT

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Creating, commercializing an idea and generating new jobs are often done by people who start/run a business. I apply theoretical modelling and empirical analysis to understand the behavior of these business owners and frictions they face, with a particular interest in the organizational forms they choose.

Startup owners may find a business partner to seek complementarity or to finance their business idea. Theoretical studies identify moral hazard, the problem of inducing optimal effort by partners when effort is not observable, as a primary concern for working with a partner. In my job market paper titled "**Why Form Business Partnerships?**" I empirically examine the formation of business partnerships among potential startup owners by using a nationally representative household-based survey. I find that business partnerships are formed mostly because of productivity gains between partners. However, financing motive is important for low wealth partners: for partners with a net worth less than the 20th percentile of wealth distribution, 80% of gains are generated by financing. The transition into business ownerships hindered by financial friction is not much alleviated by allowing the option of forming business partnerships because of high costs, such as moral hazard, associated with business partnerships. Financial friction generates additional inefficiency due to mismatch among partners. The small business loan program, currently implemented by the U.S. Government, can be effective not only for facilitating the transition of constrained potential business owners into business ownership, but also for improving match quality among business partners.

In "**Capital Accumulation and Limited Commitment**," coauthored with Kyoung Jin Choi, we investigate theoretically under what conditions the best allocation without commitment is sustainable in a production economy. In many bilateral relationships with production such as international trade, business partnerships and joint ventures, allocating more capital to the more productive unit achieves efficiency but at the same time increases the incentive to default by that unit if enforcement is not perfect. We find that allowing capital accumulation can help to sustain the best allocation, although it is known to create a distortion. We show that in an economy with productivity shocks, gains from efficient resource allocation between agents can be so large that it can compensate for the increase in the outside option that arises when capital moves to the more productive agent from the less productive agent.

Looking forward, I plan to continue my research on business owners. In this regard, I am currently working on the small firm effect with Barton H. Hamilton and Carl Sanders in "**Dynamic Incentives of Entrepreneurs and the Small Firm Effect**." The small firm effect is the tendency of workers in small firms, as opposed to large firms, to become business owners. Very little is known about entrepreneurial skill accumulation. We are interested in whether the small firm effect can be explained by entrepreneurial skill accumulation in small firms. To this end, we estimate a life-cycle model of occupational choice by using the National Longitudinal Survey of Youth 1979 (NLSY79). Using the estimated model, we quantify the extent to which the small firm effect is explained by skill accumulation in small firms.

Another research project of mine concerns startup owners' decisions to expand their businesses. It is well documented that many business owners do not expand their businesses, for a long time, after they start a business. Understanding the decision to grow by startup owners and constraints associated with their decisions would have important implications for firm growth and for policies aiming at job creation. I am currently constructing a sample by using NLSY79 in which I can observe not only an individual decision on business ownership but also startup owners' decisions on hiring employees. Using this sample, I plan to quantify the extent to which financial friction affects startup owners' decisions on expanding their businesses.