

**ECONOMICS OF ENTREPRENURSHIP**  
**ECONOMICS EC3395B- 001**  
Department of Economics  
Western University

**Instructor:** Jacob Short

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**Office Hours:** M 2:00 - 4:00 p.m.

**Classroom meeting time(s) & location:**

T 10:30-11:30pm in SSC 3022

TH 10:30-12:30 pm in P&AB 148.

**Course website:** <https://owl.uwo.ca/portal>

**Undergraduate inquiries:** 519-661-3507 SSC Room 4075 or [econugrd@uwo.ca](mailto:econugrd@uwo.ca)

### **Registration**

You are responsible for ensuring you are registered in the correct courses. If you are not registered in a course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://student.uwo.ca>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

### **Prerequisite Note**

The prerequisites for this course are **Economics 2221A/B, 2222A/B, 2261A/B.**

*Prerequisite(s) for your course found at:* <http://westerncalendar.uwo.ca/2017/pg904.html>

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an anti-requisite course. Lack of pre-requisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

## **Course Description**

The goal of the course is to develop formal theoretical and empirical tools used to study the occupational and financial choices of entrepreneurs, determinants of entrepreneurship and analyze policies related to entrepreneurship. We will discuss the individual decisions of entrepreneurs; as well as, how collectively the entrepreneurial sector impacts the economy. We will first develop economic models of occupational choice where individuals differ in their abilities and/or preferences and decide whether to engage in entrepreneurial activities. Which individuals in the labor force choose to become entrepreneurs? What are the trade-offs they face? We will then use these economic models to evaluate the empirical evidence concerning the determinants of entrepreneurship, which include human capital, risk attitudes, demographic characteristics and macroeconomic factors. What evidence does the data provide on the determinants of entrepreneurs? In addition, we will study the financing decisions of entrepreneurs, discussing both self-financing and the financial intermediaries which provide outside funding, focusing on the importance of wealth as a determinant of entrepreneurship and the role of entrepreneurs in aggregate wealth accumulation and inequality. How has wealth inequality changed over the past 30 years? Can entrepreneurship help explain the aggregate wealth distribution and inequality? Lastly, we will evaluate the impact of policies, on both the individual entrepreneur and aggregate economy, related to taxation, financing and regulation. How do tax policies affect the investment, size, growth and wealth accumulation of entrepreneurs? Should the government provide loan guarantees for entrepreneurs?

## **Learning Outcomes**

Students will be able to describe the main theories of entrepreneurial choice, financial intermediation, and macroeconomic theories which combine both entrepreneurial choice and financial intermediation.

Students will learn to interpret decision-making of individuals as motivated by a trade-off between operating a new business for profitable gain and working as an employee of an existing firm.

Students will be able to apply the main occupational choice theories to empirical analysis of the determinants of entrepreneurship.

Students will be able to critically evaluate the consequences of basic government policies directed towards entrepreneurs under differing economic conditions.

## **Textbook**

We will be working with the following textbook, as well as various academic papers (links to the papers will be provided via the course website):

Parker, Simon C., *The Economics of Entrepreneurship*, Cambridge University Press.

## Course Requirements And Student Evaluation

Student evaluation will be based on the results obtained in an empirical project, student presentation, paper summaries, quizzes in class and participation. The weight given to each assignment is the following:

	Weight
<b>Empirical project</b>	<b>25%</b>
<b>Presentations</b>	<b>20%</b>
<b>Paper summaries</b>	<b>20%</b>
<b>In-class quizzes</b>	<b>25%</b>
<b>Participation</b>	<b>10%</b>

Students will complete an empirical project using basic econometric tools and publicly available data. Details of the project will be discussed in class.

Students will choose a paper in their area of interest to present to the class. Details on the length of the presentation will be given in class and will depend on the class size.

For some papers discussed in class, students will be required to submit a summary of the paper. The summary will be due at the beginning of the class in which the paper is presented.

There will be a number of quizzes in class. They will test both material covered in class and essential background knowledge.

**You are responsible for all content covered in lectures and in the assigned readings.** Some readings content may not be covered in lectures and some lecture content may not be in the readings.

## Course Outline

### Part I. Theories and Determinants of Entrepreneurship

1. Theories of Entrepreneurship [Ch. 2]
  - i. Occupational Choice: heterogeneous ability
    - Lucas Model
  - ii. Occupational Choice: heterogeneous risk preferences
    - Kihlstrom and Laffont Model
  - iii. Entrepreneurial Spawning: incumbents' characteristics
    - Agency and Learning Theories
2. Empirical Methods in Entrepreneurship [Ch. 3]
  - i. Cross-section regression model
    - Sample selection bias
    - Endogeneity and IV
    - probit model
  - ii. Panel-data models

3. Determinants of Entrepreneurship [Ch. 4]
  - i. Pecuniary and Non-pecuniary incentives
    - Returns to entrepreneurship
  - ii. Human Capital
    - Education
    - Experience
  - iii. Risk attitudes
    - Risk aversion
    - Optimism/Confidence
  - iv. Demographics
    - Gender [Ch. 6]
    - Marital Status
    - Family background
  - v. Macroeconomic Factors
    - Business cycles
    - Unemployment
    - Regional factors

## Part II. Financing – External and Internal Sources

4. Debt Financing [Ch. 7]
  - i. Financial Intermediaries and Credit
    - Credit rationing
    - Default models
    - Screening models
  - ii. Investment
    - over/under-investment
5. Venture Capital [Ch. 8]
  - i. Structure and Size
  - ii. Advantages
    - Value-added from VC
  - iii. Drawbacks
    - Equity finance and ownership
6. Self-financing and Wealth Accumulation [Ch. 9]
  - i. Wealth and Occupational Choice
    - Evans and Jovanovic model
  - ii. Wealth Distribution and Inequality
    - Quadrini model
    - Cagetti and Di Nardi model
  - iii. Organizational Form and Wealth
    - Glover and Short model

## Part III. Public Policy

### 7. Finance Policies

- i. Credit Market Intervention
  - Loan guarantee/subsidies
- ii. Equity Finance
  - Promoting equity finance
  - Organizational form

### 8. Taxation and Regulation

- i. Income and Corporate Taxes
  - Occupational choice
  - Organizational form
- ii. Wealth/Inheritance taxes
  - Wealth accumulation
  - Wealth inequality
- iii. Regulation
  - In product markets
  - In labour markets

**Please Note**  
Department Policies for 2017 – 2018

Remember that the University expects all students to take responsibility for their own academic Programs. Also remember to check your registration to make sure you are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at <http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations” <http://westerncalendar.uwo.ca/2017/pg136.html>.
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other economics courses or programs. The University may impose further penalties such as a notation on your official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. Whenever students take an idea or a passage from another author, they must acknowledge it by using quotation marks where appropriate and referencing with footnotes or citations. Plagiarism is a major academic offence (see Scholastic Offence Policy in the current UWO Academic Calendar at <http://westerncalendar.uwo.ca/2017/pg113.html>).

The University of Western Ontario uses software to check for plagiarism and students may be required to submit their written work in electronic form. Those found guilty will have penalties imposed as noted in point 3.

5. It is Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students are responsible for submitting assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the University’s Procedures in the current UWO Academic Calendar (<http://westerncalendar.uwo.ca/2017/pg112.html>). Please note the relevant deadlines.

The Department will not consider any appeal unless an attempt has been made to settle the matter first with your instructor. If after this discussion you remain dissatisfied with a grade or other decision, you may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for your appeal. A useful form and checklist is provided at:

[http://economics.uwo.ca/undergraduate/program\\_counselling/responsibilities\\_policies.html#appeals](http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals)

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.

8. Note the following add and drop deadlines:

Last day to **add** a 2<sup>nd</sup> term half course:  
**Tuesday, January 16<sup>th</sup>, 2018**

Last day to **drop** 2<sup>nd</sup> term half course without academic penalty:  
**Wednesday, March 7<sup>th</sup>, 2018**

9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is not an excuse for a make-up. This rule applies to all mid-term tests and final exams in the Department of Economics.

### **Policy Regarding Makeup Tests and Final Examinations**

*Academic accommodation will **not** be granted automatically on request. You **must** demonstrate by documentation that there are **compelling** medical or compassionate grounds before academic accommodation will be considered.*

If you decide to write a test or an examination, you must be prepared to accept the mark you earn. Rewriting tests or examinations, or having the value of the test or examination reweighted on a retroactive basis, is **not** permitted. Book airline flights after you know the dates of your final examinations. Airline flights must not conflict with test or final exams.

If you are requesting a makeup test for a midterm or a final examination, unless medically incapable, notify your instructor by email or phone, preferably prior to the scheduled date of the test, but definitely within **24 hours** of the date of the test or exam. Failure to follow this procedure may result in denial of a request for academic accommodation or result in a grade of zero. Set up an appointment as soon as possible to meet personally with your instructor. If the instructor is not available, you may send an email message, copying the Undergraduate Coordinator at [econugrd@uwo.ca](mailto:econugrd@uwo.ca) (Social Science Room 4075). **Notifying your instructor of a missed test or exam does not automatically entitle you to a makeup test.**

Students who seek a makeup test or examination must provide medical or other relevant verification that their absence from a regularly scheduled test or examination is beyond their control. Documentation must support your reasons. Medical documentation should be given to the Academic Counselling Office of your *home* Faculty **as soon as possible (preferably within 24 hours of the test)** if you know you may not be able to write your final examination on the scheduled day and time. Failure to follow this procedure, or to provide supporting documentation, may result in denial of a request for academic accommodation or result in a grade of zero. If your documentation is not acceptable, you will be given a zero for the missed test.

For personal illness, if you consult Student Health Services regarding your illness or personal problem, you should request a Student Medical Certificate from the physician. If you were seen by an off-campus doctor, obtain a certificate from his/her office at the time of your visit. The off-campus medical certificate form must be used and can be found at: [http://www.uwo.ca/univsec/pdf/academic\\_policies/appeals/medicalform.pdf](http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf). Notes stating "For Medical Reasons" are not considered sufficient.

For any other circumstances, if you are not sure what documentation to provide, ask your Academic Counsellor. If your documentation is judged sufficient, the Academic Counsellor will issue a Recommendation for a Special Examination (a single form for midterms or a triple color form for final examinations). Once you have this form, contact your instructor as soon as possible to make arrangements. Even if approved from your home faculty Academic Counsellor, there is no guarantee that you will be allowed to write the makeup test and exam.

For final examinations, you need permission from your *home* Faculty Counsellor, your instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in an examination grade of zero. You must ensure that the Special Examination form has been signed by the instructor and Department Undergraduate Director and that the form is returned to the Academic Counselling Office for approval without delay. Make-up final examinations, if permitted, will be written within one month of the end of the exam period.

### **Policies Regarding Academic Accommodation**

Information about the Faculty of Social Science's policies regarding academic accommodation is found on its website at <http://counselling.ssc.uwo.ca/procedures/havingproblems.asp> or in Social Science Room 2105. Your "Academic Rights and Responsibilities" are also outlined in the current UWO Calendar at <http://westerncalendar.uwo.ca/2017/pg111.html>. Claiming that "you didn't know what to do" is not an acceptable excuse for not following the stated procedures.

### **Policy Regarding Class Attendance**

If your instructor views your class attendance as unsatisfactory, you can be prohibited from writing the final examination. If there is intent to make use of this University policy, you will be notified in writing.

### **Statement on Mental Health and Support Services**

If you or someone you know is experiencing emotional/mental distress, there are several resources here at Western to assist you. Please visit <http://www.uwo.ca/uwocom/mentalhealth/> for more information and a complete list of resources, as well as how to obtain help.