Expertise and Firm Dynamics*

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Abstract

We develop a model of expertise and apply it studying firm dynamics. The profits of the firm are determined by how well it performs a set of tasks. Completing a task perfectly involves finding the unique optimal action, which is unknown \textit{ex-ante} and has to uncovered through experimentation. Learning is ‘local’ in the sense current actions generate information about others that are nearby. Productivity growth requires expanding the set of tasks. The key tradeoff is that the larger the set of tasks, the harder it is learn how to do them well. When the underlying environment changes, younger firms with a smaller set of tasks find it easier to learn and adapt while older, larger firms are less nimble.