

Business Groups and Economic Development

Chang-Tai Hsieh*

University of Chicago

Munseob Lee†

University of California San Diego

Yongseok Shin‡

Washington University in St. Louis

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A business group or conglomerate is a group of firms owned and operated by a common source of control. Business groups typically span multiple industries and countries, and they are dominant actors in many developed and developing economies. Despite their prevalence and economic importance, they have been subjected to very little economic research. The overarching theme of our proposed research is the following questions: (1) why is a business group formed—which extends the theory of the firm; (2) whether or not business groups have positive impact on allocative efficiency both at the intensive margin (allocation of resources across firms/establishments) and at the extensive margin (entry and exit of firms/establishments), especially in the presence of the agency problem between controlling shareholders and “outside shareholders; (3) whether or not the potential gains from better resource allocation within business groups come at the expense of other firms not belonging to the groups, for example because of distortionary market power; (4) whether or not the presence of dominant business groups can be a destabilizing force for the macroeconomy that amplifies firm/sector-specific shocks.

* chsieh@chicagobooth.edu

† munseobleee@ucsd.edu

‡ yshin@wustl.edu