

# Incorporation Decisions and Job Creation in New Firms<sup>\*</sup>

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## Abstract:

Incorporation law can influence job creation in new firms, and thereby the economy-wide distribution of jobs across firms. In this paper, we investigate how the costs of incorporated entry influence both the organizational composition of a population of new firms and initial job creation in these firms. To identify these effects, we exploit a natural experiment in law and regulation that accompanied the German reunification shock and consider endogenous choices of the legal form of organization. We find that higher costs of incorporated entry reduce the probability of incorporating among new firms and expand the gap in average initial job creation per firm between incorporated and unincorporated entrants. The latter result follows from reduced mass in the intermediate range of the entry size distribution among incorporated entrants. These findings fit with a theoretical model where legal form-specific entry size distributions result from profit expectations of entrepreneurs who observe their type after entry.

**Keywords:** Firm Entry, Incorporation Decisions, Initial Job Creation

**JEL:** L22, L26, L53, K22, J23

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