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Appendix and Supplemental material not intended for publication-Round 2

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appendix

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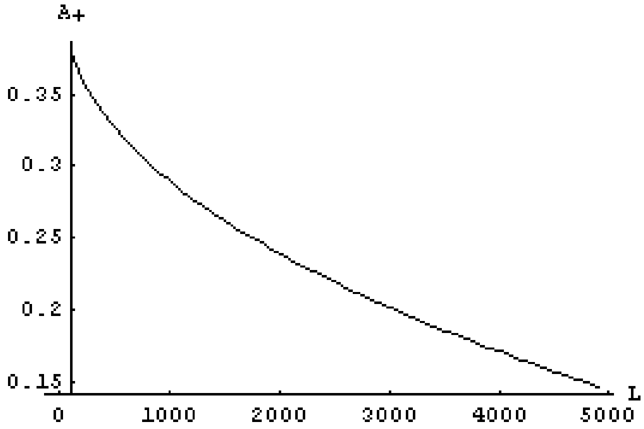

5 Appendix A: An Example

The problem facing the firm in this paper cannot be solved in closed form. In order to provide better understanding of the results presented we provide in what follows a numerical example using simulations.

We use $F = 100m^{0.3}z^{0.4} = 100\left(\alpha\frac{1-A^{+2}}{2}L\right)^{0.3}\left(\left(A^{+}+\beta\right)L\right)^{0.4}$ $\alpha = 1.5$, $\beta = 0.5$, $k = 10$, $T = 20$ while assigning L values between 100 and 5000. We should note here that the marginal product of each second period worker (a laborer or a manager) is higher than his wage.

In figure 1 we show the relations between A^{+} and L obtained using the above parameters. We note that the negative correlation between firm's size (L) and threshold level (A^{+}) is robust to several parameter choices for the Cobb-Douglas production function.