

“Urban Density, Human Capital, and Productivity in Service Industries: An Analysis of Firm-Level Data of China”

(in English)

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Abstract:

This study aims to empirically investigate the links between urban density, human capital and productivity in service industries. By using firm-level data related to manufacturing and service industries in China, the study estimates the production function and compares how density effects vary between manufacturing and service and between producer services and non-producer services. The preliminary results suggest that significant economies of density exist in both the manufacturing sector and the service sector, and that doubling city population density increases productivity in services by around 23%, almost twice as much as the density elasticity of productivity estimated for manufacturing firms. Moreover, after controlling for firm-level human capital, the population density effects on productivity are larger for non-producer services than for producer services, suggesting economies of demand density are in greater magnitude in non-producer services. Examples of non-producer services include catering and retail trade, whereas business and financial services are examples of producer services, where a larger proportion of employees with Bachelor's degree or higher are hired. Estimates also suggest that human capital effects on productivity are twice as large in producer services as in non-producer services.