

Estimating Capital-Labor Substitution in China: Evidence from Firm-Level Data

By Prof. ZHANG Yifan

Professor

Department of Economics, CUHK



Date: 28 April 2023 (Friday)

Time: 3:00pm – 4:30pm

Venue: WYL314, 3/F, Dorothy Y. L. Wong Building, Lingnan University

ABSTRACT:

Using firm-level panel data, this paper examines the micro-level and aggregate elasticity of substitution between capital and labor in China's manufacturing sector. We first investigate the impact of the user cost of capital on a firm's demand for capital and labor by taking advantage of a natural experiment, the 2009 value-added tax reform. We find positive effects on both capital stock and employment, with a larger impact on capital stock. By combining reduced-form estimates and a structural model, we establish a micro elasticity of 3.5, which suggests a high degree of capital and labor substitutability within firms. Furthermore, when accounting for cross-firm factor reallocation, we estimate the economy-wide elasticity at 4.3, indicating high substitutability between the two factors at the aggregate level as well. Our results show a notable contrast with the U.S., where previous studies have estimated a much lower elasticity of substitution.

BIOGRAPHY:

Yifan Zhang is a Professor in the Department of Economics at the Chinese University of Hong Kong. He received B.A. and M.A. from Renmin University of China and Ph.D. from University of Pittsburgh. His research interests include Chinese economy, international trade, and economic development. His papers have appeared in refereed economics journals such as American Economic Review, Journal of International Economics, and Journal of Development Economics. He has been a consultant for the World Bank and the Asian Development Bank. His recent research has investigated the impacts of globalization forces such as trade and FDI on the performance of Chinese firms.

Welcome to join !

****Registration is required****

Register [HERE](#):

