Industry agglomeration has been an important and long-lasting topic

Traditionally more focused on manufacturing: Detroit, Silicon Valley, etc.

Production side reasons dominate: local advantage, labor pooling, Marshallian externalities.

This paper, as well as the few it cites, looks at retail clustering.

Unobserved (time-varying) demand change

New highways, malls, outlets etc.

A novel channel of clustering: learning from rivals

Standard dynamic oligopoly model

    entry barrier: sunk entry cost

Model in this paper

    entry barrier: sunk entry cost + unknown demand
    later entrants learn from rival: e ectively lowers entry barrier

This is an interesting and plausible story

However, not clear to me it is THE channel

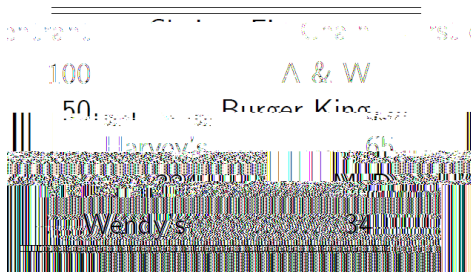Empirical challenge: how to separate it from timing-varying demand

Mimic a standard \re ection" problem in social interaction models

Well documented pattern of rst-mover

The most interesting data pattern - does model speak to it

Habit formaton story?
Does rival learn di erently if a strong incumbent fails vs if a weaker one fails.

Overall, the model could be more transparent

Hard to digest the learning rule:

$$\pi_{imt} = \frac{Pr(a_{mt-1}|!_m \neq 0)\pi_{imt-1}}{Pr(a_{mt-1}|!_m \neq 0)\pi_{imt-1} + Pr(a_{mt-1}|!_m = 0)(1-\pi_{imt-1})}$$

To what extent a37

Some empirical information left unspeci ed

How should we think about market size (observed part) evolution?

Trends of population growth or income change

Is the distribution of market structure stationary over this long period

Does not seem to be the case for Chain retail in U.S

Useful to take a stand on where is the transitory path vs. ergodic set of equilibrium market structure. Important for CCP estimation.

Question: do we observe $_{imt}$ in data?

If not, then the identication on levels of xed/sunk cost/ surprises me.

how to interpret negative sunk/ xed cost.

The standard deviation of IID random shock crucial to report: are we using a standard normal $N(0, 1)$?

Also needs more details on how to separate

Unobserved market mixture prob $_1$
Probability of common prior belief $_0$.

It is not observed by us as econometrician: what dierence does it make that markets are truly good, or rms share common belief that it is good? How to tell?

Details: are those in brackets standard errors, p-values. Statistical signicance?