Topics on Capital Misallocation

This lecture introduces the literature on capital misallocation and its implications for aggregate productivity, with particular attention to developing economies. The lecture centers on Hsieh and Klenow (2009, QJE). We examine how their framework uses dispersion in marginal revenue products across firms to measure misallocation, infers firm-specific wedges that summarize deviations from the benchmark allocation, and quantifies potential productivity gains from reallocating resources.

If time permits, we will examine mechanisms underlying capital allocation and the interpretation of observed dispersion. These include adjustment costs for dynamic inputs (ACD, 2014, JPE), informational frictions and other firm-specific distortions (DV, 2019, AER), financial frictions (MX, 2014, AER; GKKV, 2017, QJE), preferential access to finance and distortions across ownership sectors (SSZ, 2011, AER), spatial differences in taxation (FMSZ, 2019, REStud), and barriers to entry (BKS, 2026, REStud).

We will also introduce resource misallocation beyond capital, including agricultural resource allocation and selection (ABLR, 2022, ECTA), labor allocation across regions and sectors in the presence of migration costs (TZ, 2019, AER), and talent allocation across occupations (HHJK, 2019, ECTA).

You do not need to master every detail of each paper or model. Focus on the main ideas and consider what makes each paper an important contribution to the literature.

Reading list:

Hsieh, Chang-Tai, and Peter J. Klenow. "Misallocation and manufacturing TFP in China and India." *The Quarterly journal of economics* 124, no. 4 (2009): 1403-1448.

Asker, John, Allan Collard-Wexler, and Jan De Loecker. "Dynamic inputs and resource (mis) allocation." *Journal of Political Economy* 122, no. 5 (2014): 1013-1063.

David, Joel M., and Venky Venkateswaran. "The sources of capital misallocation." *American Economic Review* 109, no. 7 (2019): 2531-2567.

Midrigan, Virgiliu, and Daniel Yi Xu. "Finance and misallocation: Evidence from plant-level data." *American economic review* 104, no. 2 (2014): 422-458.

Gopinath, Gita, Şebnem Kalemli-Özcan, Loukas Karabarbounis, and Carolina Villegas-Sanchez. "Capital allocation and productivity in South Europe." *The Quarterly Journal of Economics* 132, no. 4 (2017): 1915-1967.

Fajgelbaum, Pablo D., Eduardo Morales, Juan Carlos Suárez Serrato, and Owen Zidar. "State taxes and spatial misallocation." *The Review of Economic Studies* 86, no. 1 (2019): 333-376.

Brandt, Loren, Gueorgui Kambourov, and Kjetil Storesletten. "Barriers to entry and regional economic growth in China." *Review of Economic Studies* 93, no. 1 (2026): 286-326.

Adamopoulos, Tasso, Loren Brandt, Jessica Leight, and Diego Restuccia. "Misallocation, selection, and productivity: A quantitative analysis with panel data from China." *Econometrica* 90, no. 3 (2022): 1261-1282.

Tombe, Trevor, and Xiaodong Zhu. "Trade, migration, and productivity: A quantitative analysis of China." *American Economic Review* 109, no. 5 (2019): 1843-1872.

Song, Zheng, Kjetil Storesletten, and Fabrizio Zilibotti. "Growing like china." *American economic review* 101, no. 1 (2011): 196-233.

Hsieh, Chang-Tai, Erik Hurst, Charles I. Jones, and Peter J. Klenow. "The allocation of talent and us economic growth." *Econometrica* 87, no. 5 (2019): 1439-1474.