

EconWorld2014@Prague

The Effect of Business Cycles on Entrepreneurship: The Case of The USA and Turkey

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ABSTRACT

The empirical studies on cyclical properties of entrepreneurship have two opposite findings in the literature: (i) Entrepreneurship is procyclical with economic activity. (ii) Entrepreneurship is countercyclical with economic activity. The first finding is mainly accounted for by the idea that entrepreneurship increases in expansions since the asset accumulation required for entry into entrepreneurial activity becomes higher in expansion times. The second finding is explained by the view that the workers who become unemployed in recessions are more likely to enter into entrepreneurship. The study has two important aims. The first main aim of this study is to compare the cyclical properties of entrepreneurship in the USA, as a developed country, and Turkey, as a developing country. The ratio of self-employed is regarded as an indicator of entrepreneurial activity in this study. The growth and unemployment rate are considered as indicators of the expansion and contraction of economic activity. Current Population Survey released by the U.S Bureau of Labor Statistics, and the data released by Turkish Statistical Institute are used in the study. Both data sets are monthly. The period from January 2005 to December 2013 is covered. The ordinary least squares method is used to analyze the cyclical relationship between the selfemployment and economic activity in both countries. The second important aim of this study is to analyze and compare the cyclical properties of self-employed subgroups (based on gender and age) for the both countries. This analysis demonstrates how subgroups are influenced by business cycles in the USA and Turkey.

KEYWORDS Business cycles; unemployment; self-employment; entrepreneurs

JEL C10, E32, J64, J16