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The Economic Determinants of Entrepreneurial Activity: Evidence from a Bayesian Approach

A thesis presented in partial fulfilment of the requirements for the degree of Master of Business Studies in Financial Economics at Massey University

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ABSTRACT

In this paper we investigate the economic, political, institutional, and societal factors that encourage entrepreneurial activity. We do so by applying Bayesian Model Averaging, which controls for model uncertainty, to a panel data set for 33 countries. Our results indicate that the general state of macroeconomic activity, the availability of financing, the level of human capital, fiscal policies implemented and the type of economic system are the main determinants of the level of entrepreneurship. We also document a non-linear, U-shaped relation between distortionary taxation and entrepreneurial activity.

Keywords: Entrepreneurship, Entrepreneurial Activity, Total Early-Stage Activity (TEA), Global Entrepreneurial Monitor (GEM), Bayesian Model Averaging (BMA), Panel Estimation.

JEL Classification: B30, B53, C11, C23, J20, M13, O10, O40
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