

Entry During the Dot Com Era: Was there too little? *

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Abstract:

Based upon analyses of a database of records of over one thousand businesses from the Dot Com era (www.businessplanarchive.org), we examine the failure rate of Dot Com era ventures. We observe a failure rate that is similar if not lower than that observed in other cases of industry emergence.. Consistent with theoretical models of entry and exit, the modest exit rate suggests, in turn, a low entry rate relative to other emerging industries. Based upon the historical record, we hypothesize that investors and entrepreneurs systematically overestimated the scale of enterprise necessary to exploit opportunities arising during the Dot Com era and therefore allocated too many resources to too few enterprises, crowding out entry on the margin. We find evidence supporting our predictions.

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