

## How small are small markets?

### Location choice and catchment area in the day care market



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**Personal Profile & Research Interests:** Dieter Pennerstorfer obtained his Phd in 2008 from the Vienna University of Economics and Business (WU Wien). From 2008-2017 he worked as researcher at the Austrian Institute of Economic Research (WIFO) and at the WU Wien, Institute of Economic Policy and Industrial Economics. Since 2017 he is Assistant Professor at the Department of Economics at the Johannes Kepler University Linz. His research interests include Applied Industrial Organization, Product Differentiation, Spatial Competition, Spatial Econometrics.

**Abstract:** In this article we analyze entry decisions of day care facilities relative to local market characteristics to evaluate the widespread suspicion that local markets are geographically very small. We have access to a panel of all child care facilities for the metropolitan region of Vienna, Austria, over nearly a decade, as well as to geographically extremely disaggregated data on the spatial distribution of children at the 250m x 250m grid cell level. We find that the number of children is the single most important determinant of market entry, but the effect diminishes quickly as the distance between the children's places of residence and the day care facility increases. We conclude that the providers' catchment areas in metropolitan regions are indeed very narrow (about 500m).