

# Experimentation and the Returns to Entrepreneurship\*

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September 9, 2013

*Preliminary and incomplete*

*Please do not circulate*

## **Abstract**

Previous studies have argued that entrepreneurs earn less and bear more risk than otherwise similar salaried workers. In a simple model of entrepreneurship, I show that estimates of mean and variance of returns to entrepreneurship used by these previous studies are biased, as they are based on cross-section data analysis and fail to account for the option value of experimenting with new ideas. Using longitudinal data, I find that the returns to entrepreneurship are more attractive than established by previous research.

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\*I thank David Levine, Ross Levine, Ulrike Malmendier, Adair Morse, Toby Stuart, and Annette Vissing-Jorgensen for helpful comments.

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