Erratum

August 18, 2025

There is a mistake in the formula for the equivalent variation on page 193. This changed some of the welfare numbers reported. The message of the paper is exactly the same, however. Unfortunately, there are also some typo's in Appendices D and E. They do not affect the formulae in the main text or the numerical results. The terms in red below signify the corrections.

Equivalent Variation

The formula for the equivalent variation on page 193 should be

$$\mathtt{ev} = \exp(\frac{W^A - W^B}{\theta}) - 1.$$

Since $\theta = 0.549$, this will up the equivalent variations reported in the paper by a factor of about 2. The equivalent variation reported in Table 5.2, and mentioned on pages 173 and 193, should be 2.26%, instead of 1.25% The revised version of the lower panel of Figure 5.2 is shown below. Now process innovation alone has an equivalent variation of 52.57%, technological progress in the generic sector an equivalent variation of 32.20%, and entry costs in the specialized sector an equivalent variation of -1.00%.

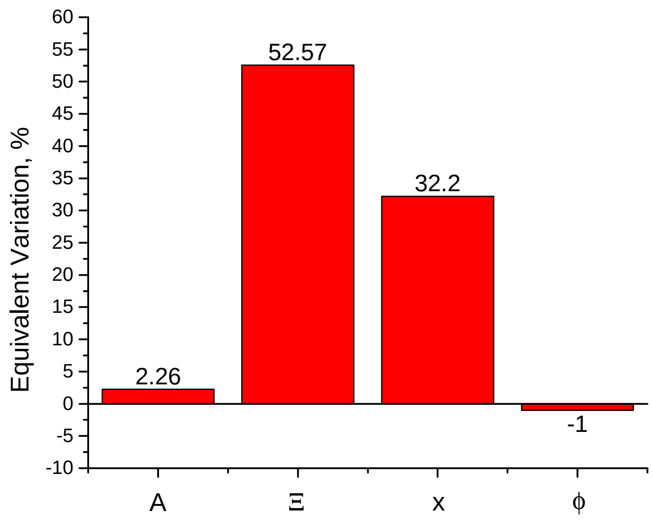

Figure 1: Revised equivalent variations for the lower panel of Figure 5.2.

Note: The figure displays the revised equivalent variations associated with each form of technological change.

Appendix D. Consumer's problem

The level of welfare for a consumer displayed below equation (D.5) should read

$$W = \theta \ln(\theta \hat{y}) + \frac{\left[(1-\theta)\,\hat{y}^{1-\kappa}\right]^{1/\kappa}}{1-\kappa} \int_0^M S(j) p(j)^{(\kappa-1)/\kappa} dj.$$

The inverse of the Lagrange multiplier should be expressed as

$$\hat{y} = \frac{y}{\theta + \left[(1-\theta)\,\hat{y}^{1-\kappa}\right]^{1/\kappa} \int_0^M S(j) p(j)^{(\kappa-1)/\kappa} dj}.$$

The associated formulae in the main text for these two variables are correct.

Appendix E. Firm's problem

The first-order condition for output price displayed above equation (E.4) should read

$$\underbrace{[(1-\kappa)/\kappa][a_d q_d(n,p) + a_t(1-a_d)q_t(p)]}_{\text{Marginal revenue}} = \underbrace{w\Xi(1/\kappa)(1/p)[a_d q_d(n,p) + a_t(1-a_d)q_t(p)]\frac{n^\eta}{\eta}}_{\text{Marginal cost}}.$$

Equations (E.4) and (E.5) that follow from that first-order condition are correct.