1. Read Section I.

2. Read Section II. Note the first paragraph encapsulates the Schumpeter/Arrow dichotomy we talked about early in class.

3. Find any two publicly-traded firms in a real-world technology industry. Calculate \( l \) for each firm using the most recent year’s data available. (Try Yahoo! or Google Finance, using the income statement for sales and operating profit (or “operating income”) and the balance sheet for total assets. As in footnote 7, multiply total assets by 0.085 to find the “financial cost.”) Then pretend the two firms make up the entire industry, and calculate \( c_{jt} \).

4. Go back to your ECON 300 textbook or other sources, and remind yourself how the Poisson distribution works.

5. Write down the natural log of equation (4). Notice how you could almost run a regression on this, but not quite because you don’t know the form of the \( g(c) \) function.

6. Now suppose \( g(c) = \alpha_1 c + \alpha_2 c^2 \). This is what the authors do, although their terminology makes it a little unclear.

7. Plot a graph (using a graphing calculator or software) of \( E(p) = \alpha_1 c + \alpha_2 c^2 \). Let \( c \) vary from 0 to 1, and use the estimates in column (2) of Table I for the values of \( \alpha_1 \) and \( \alpha_2 \).

8. Think about why instrumental variables are necessary, and then admire column (4) of Table I.

9. Skim Sections III and IV. Explaining the model is a possible extension.
for the presentation, but other types of value added are fine too.