

Executive Summary

The study is an attempt to understand the impact of economic structure and labour resource on subtleties of firm formation. Firm formation, the measure of entrepreneurship, is dependent upon individual variables like talent, attitude, skills, knowledge, etc. and on contextual variables which include economic structure. The indicator of entrepreneurship is related to firm births. In this explorative study, effect of economic structure especially unemployment on firm formation is investigated. A statistical explorative test on longitudinal time-series data of number of registration of non-government companies limited by shares per year (dependent variable) with macroeconomic data of unemployment, lending rate, R&D expenditure, GDP and inflation (independent variables) is conducted. The statistical results show a significant relationship of birth of firms to unemployment, R&D expenditure, lending rate and GDP. Unemployment in India, unlike in US, is negatively associated with creation of firms which means higher unemployment is not conducive to firm formation. However, other dependent variables show similar relation as similar studies in US have revealed. Expenditure in R&D is positively related whereas lending rate is negatively related to the new firm formation. Interestingly, Inflation (GDP deflator) did not show any significant correlation to formation of firms but Inflation (CPI) showed a positive relationship with firm formation. The results of this study reveal important areas where government can intervene to improve the conditions for higher firm-formation intensity in India.