

**SELF-SELECTION HYPOTHESIS AND HETEROGENEITY: THE INDIAN
INSTANCE OF MANUFACTURING EXPORTS**

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ABSTRACT

This study investigates the self-selection hypothesis in the context of Indian manufacturing firms, exploring how firm heterogeneity influences the decision to enter export markets. The heterogeneity is dealt by classifying them into two categories in this paper as firm-specific characteristics and spatial differences in terms of zones, states, rural-urban dichotomy, alongside the time effects in terms of years. Drawing on extensive firm-level data from the Annual Survey of Industries from 2008-09 to 2021-22, the analysis employs ivprobit model. The empirical evidence thus produced supports that older, larger, and more profitable firms are significantly more likely to initiate exports while a higher past productivity need not imply that firms start exporting. The spatial-effects analysis uncovers striking disparities, which also highlights that the firms located in urban areas and states within the Northern and Central zones show higher likelihood of export participation than some coastal regions and that firms located in urban areas are in an advantageous position to start exporting. Additionally, time-fixed effects highlight how policy disruptions and global economic shocks and uncertainties have influenced export dynamics across the years. The study contributes to the growing literature on export heterogeneity by presenting a nuanced view of export participation that accounts for both the internal environment which can be controlled by the firms (firm-specific) as well as external environment which are beyond the firms' control after certain period (spatial-effects). The evidence lays emphasis on the significance of the firm's ability to navigate regional, institutional, and temporal barriers, in deciding to enter the export markets. This study opens up a plethora of avenues for further research that enable a pronounced data driven policy decisions among the stakeholders.

Keywords: Exports, self-selection hypothesis, manufacturing firms, India