

## **Persistence in Innovation Activities? Stylised Facts and Panel Data Evidence**

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This paper investigates whether innovation behaviour exhibits persistence at the firm-level using a long innovation panel data set of German manufacturing and service firms for the period 1994-2002. We find that innovation behaviour is permanent at the firm-level to a very large extent. Using a dynamic random effects discrete choice model and the estimator recently proposed by Wooldridge (2002), we further shed some light on the driving forces for this phenomenon. The econometric results confirm the hypothesis of true state dependence for manufacturing as well as for service sector firms. In addition, some observed firm characteristics (like firm size or financial constraints) as well as unobserved individual heterogeneity have also found to be important factors in explaining innovation. Keywords: Innovation, persistence, panel, transition, random effects dynamic model