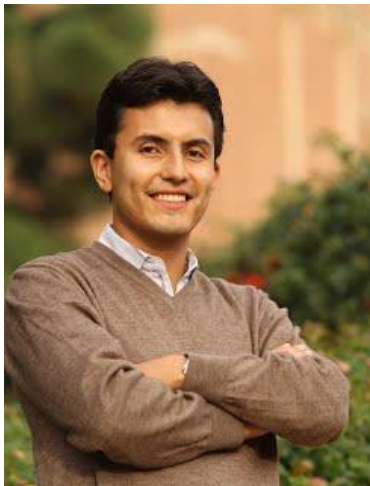




in cooperation with the UCLA Sociology Department's  
Knowledge & Cognitive Systems Working Group presents

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### *Carlos Eduardo Hernandez*

Assistant Professor, Los Andes School of Management, Universidad de los Andes, Bogata

Wednesday, September 20, 2017  
Noon – 1:30 p.m.

UCLA Anderson School of Management  
Cornell Hall, D310

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### *“Industrial Location and Private Trade Costs: How Brewing Moved West in the United States” by Carlos Eduardo Hernandez*

I study the dynamics of output location within an industry when firms can reduce their trade costs by making private investments. I focus on the relocation of brewing in the US after the invention of pasteurization in the late nineteenth century. Pasteurization reduced the marginal cost of shipping beer for breweries willing to build bottling plants. Using a brewery-level dataset that I constructed, I show that the endogenous adoption of bottling allowed for the early expansion of breweries that would later become leaders in the industry. These breweries were located in mid-sized cities in the Midwest. The early expansion of Midwestern breweries occurred mainly through shipments within the Midwest, as opposed to shipments from the Midwest to the East Coast. Later, when trade costs between the Midwest and the East Coast fell further, Midwestern breweries became leaders in the national market thanks to first-mover advantages in bottling and beer quality. My results are consistent with an extension of the endogenous sunk cost framework developed in Sutton (1991).

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## **THE INNOVATION AND CREATIVITY WORKSHOP**

### **Fall 2017 Schedule**

Abstracts of the papers follow the schedule. Students, faculty, and others who want to schedule a talk for 2017-2018 should let Michael R. Darby <michael.r.darby@anderson.ucla.edu> know as soon as possible with a title and abstract so that a space can be reserved.

Sept. 20     Carlos Eduardo Hernandez (Los Andes School of Management, Universidad de los Andes, Bogata), “Industrial Location and Private Trade Costs: How Brewing Moved West in the United States,” noon-1:30pm, Cornell Hall, room D-310. Cosponsored by the UCLA Sociology Department’s Knowledge & Cognitive Systems Working Group

Papers or handouts, coffee, and cookies will be available at each talk. Papers will be generally available in advance at the workshop page on the Anderson site <http://www.anderson.ucla.edu/faculty-and-research/strategy/workshops>.

The Innovation and Creativity Workshop welcomes participation from faculty, graduate students, and other scholars throughout UCLA and southern California. The Innovation and Creativity Workshop is sponsored by the Center for International Science, Technology, and Cultural Policy in the School of Public Affairs and by the John M. Olin Center for Policy in The Anderson School.

#### **ABSTRACTS:**

Carlos Eduardo Hernandez (Los Andes School of Management, Universidad de los Andes, Bogata), “Industrial Location and Private Trade Costs: How Brewing Moved West in the United States”

Abstract: I study the dynamics of output location within an industry when firms can reduce their trade costs by making private investments. I focus on the relocation of brewing in the US after the invention of pasteurization in the late nineteenth century. Pasteurization reduced the marginal cost of shipping beer for breweries willing to build bottling plants. Using a brewery-level dataset that I constructed, I show that the endogenous adoption of bottling allowed for the early expansion of breweries that would later become leaders in the industry. These breweries were located in mid-sized cities in the Midwest. The early expansion of Midwestern breweries occurred mainly through shipments within the Midwest, as opposed to shipments from the Midwest to the East Coast. Later, when trade costs between the Midwest and the East Coast fell further, Midwestern breweries became leaders in the national market thanks to first-mover advantages in bottling and beer quality. My results are consistent with an extension of the endogenous sunk cost framework developed in Sutton (1991).