

Abstract: Firms may benefit from the clustering of neighboring firms with certain characteristics because such clustering allows buyers to reduce their trip and search costs. This idea, known as shopping externality, is central to the theory of the formation of market places and to many branches of the agglomeration theory. A fundamental challenge in investigating such mechanisms arises from economic agents' self-selection into locations. We overcome this challenge by analyzing neighborhood effects among intermediate wholesalers located in the Tokyo Tsukiji Fish Market and by exploiting a unique feature of their shop locations within the market: their locations are determined every 4-10 years by relocation lotteries. First, we confirm that these intermediate wholesalers' shop locations are indeed randomly distributed. Then, we find that the characteristics of the neighboring firms significantly affect firm performance. Specifically, the diversity of the types of neighboring firms as well as the fraction of neighboring firms selling similar products positively affect the performance of small-sized and specialized firms. We find no effect of the characteristics of close neighbors not facing the same corridor and thus not sharing the flow of buyers, which provides evidence that our results are not due to factors other than buyer flow sharing, such as technology spillovers. Our results provide the first randomization-based evidence of shopping externality