**Offshoring and Firm Overlap**

**Hartmut Egger***

*Abstract*

We set up a model of offshoring with heterogeneous producers, in which firms differ in the mass of tasks they perform and the share of tasks they can offshore to a low-cost host country. The model captures the empirical regularity that larger, more productive firms are more likely to make use of the offshoring opportunity and that only a fraction of firms of a specific type engages in offshoring. This gives rise of an overlap of firms, which is type-specific and, in the aggregate, non-monotonic in the costs of offshoring. In an empirical exercise, we use firm-level data from Germany to structurally estimate key parameters of the model. These parameters are then used for counterfactual analyses, in which we quantify at the role of overlap for welfare and study the consequences of a reduction in offshoring costs for the extent of overlap and welfare.

**University of Bayreuth*