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Abstract: Both urban and rural firm entry rates have declined over the last three decades, and the urban–rural gap in firm entry rates has increased. We investigate which local market factors are associated with the divergence between 1993 and 2019. Our model includes local measures of firm agglomeration, population agglomeration, human capital, consumption demand, government fiscal policies, and natural amenities. Their effects on firm entry are consistent over time and have similar signs in both rural and urban markets. While the magnitudes of these factors have remained fairly stable over time, their impact on firm entry has diminished in both markets, which has lowered the rate of firm entry overall. Larger rural market declines in the importance of firm agglomeration, population agglomeration, and educated labor supply are the main factors driving the rising gap in urban–rural firm entry.
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