Entrepreneurship is central to understanding innovation, the commercialization of innovation, economic growth, job creation, and business cycles. But there are major gaps in the study of entrepreneurship concerning the human capital and liquidity constraints facing entrepreneurs, and the behavior of entrepreneurship during the business cycle. Levine and co-author Yona Rubinstein (LSE) develop a theoretical three-sector Roy model that distinguishes between entrepreneurs, salaried employees, and other self-employed. They plan on testing the model’s three major predictions, namely that: (1) entrepreneurs are positively selected on entrepreneurial abilities; but the self-employed are negatively selected on these same factors; (2) entrepreneurs face liquidity constraints; but the self-employed do not; and, (3) entrepreneurship is pro-cyclical but self-employment is counter-cyclical. Evidence on these predictions would materially close the gap between entrepreneurship theory and evidence.