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ON THE EVOLUTION OF A MULTI-REGIONAL SYSTEM

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Abstract

We study the effects of a decrease in trade costs on the spatial distribution of industry in a multi-regional economy, when a rise in the regional population of workers generates higher urban costs. We show that high and low trade costs imply that all regions involve a positive share of the industrial sector. When urban costs are linear, there exists a stable equilibrium for almost all values of trade costs. Furthermore, as trade costs fall, there is a path of stable equilibria such that the industry is, first, agglomerated into a decreasing number of regions and, then, dispersed among a growing number of regions. The second phase arises because of the increasing urban costs associated with the process of agglomeration.

Keywords: multi-regional system, economic geography, agglomeration, transport costs, urban costs.

JEL Classification: F12, L13, R13.

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