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MARKET SIZE AND URBAN HIERARCHY

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Abstract

We investigate the importance of market size as a determinant for industrial location patterns. In order to focus on a broad range of sectors, including the service industries, both traded and non-traded goods are taken into consideration. In our model, traded goods industries always exhibit a 'home market effect' (HME), whereas the existence of such an effect for non-traded goods and services crucially hinges on the degree of product differentiation. High degrees of product differentiation generally support a HME, whereas a reverse HME may arise when products are sufficiently close substitutes.

Our results point to the existence of some market size dependent 'industrial urban' hierarchy: highly differentiated non-traded services are more sensitive to market size than manufacturing activities and traded services, which in turn are more sensitive to market size than closely substitutable non-traded services.

Keywords: reverse home market effect, traded goods, non-traded goods, service industries, urban hierarchy.

JEL Classification: F12, L80, R11, R12.

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