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REGIONAL INEQUALITY AND PRODUCT VARIETY

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Abstract

We investigate how differences in set-up costs of various types affect the trade-off between global efficiency and spatial equity and show that the standard assumption of symmetry in fixed costs masks the existence of an interesting effect: the range of available varieties varies depends on the spatial distribution of firms. In such a setting, even when the market outcome leads to excessive agglomeration under symmetric fixed costs, a planner opts for asymmetric fixed costs and more agglomeration. The reason is that the losses induced by more agglomeration are offset by the gains due to additional product variety.

Keywords: fixed costs; set-up costs; market size; international trade; home market effect.

JEL Classification: F12; F15; R12; R38.

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