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An Economic Geography Model with Mobility of Capital and Labor

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Abstract

This paper is an analysis of a two-region model considering the mobility of both capital and skilled labor. A unit of capital forms a firm producing a differentiated variety, and skilled labor is used as variable input in order to improve the vertical quality of each variety. The main results are as follows. First, if there are no congestion costs based on residents, the firm size must be larger, and the quality of products must be higher in a more populated region. Second, if there are some congestion costs based on residents, a reverse result could occur. Third, although our model could show the symmetric location pattern for a sufficiently high transport cost as in typical NEG models, it requires more restrictions. This implies that the mobility of both capital and skilled labor makes the distribution of our economic activity more uneven.