A Region with Inferior Technology Can Excessively Attract Firms

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Abstract

We examine strategic firm location in a service industry from the welfare perspective. We focus on the situation where a fixed number of firms locate in either of two regions with different marginal and fixed entry costs. We demonstrate that firms excessively locate in a region with a lower marginal cost, and insufficiently locate in a region with a lower fixed entry cost. Furthermore, we show that firms can excessively locate in a region with both higher marginal and fixed entry costs and insufficiently locate in a region with lower marginal and fixed entry costs.

Keywords: Strategic firm location; Service industry; Difference in costs

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