A Region with Inferior Techonology Can Excessively Attract Firms*

Hiroshi Kurata[a]†, Takao Ohkawa[b], Makoto Okamura[c]

[a] Faculty of Economics, Tohoku Gakuin University
[b] Department of Economics, Ritsumeikan University
[c] Economics Department, Hiroshima University

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

JEL Classification Number: F12; L13

*We would like to thank Kjetil Bjorvatn, Nicola Coniglio, Colin Davis, Masayuki Hayashibara, Tatsuya Kikutani, Motonari Kurasawa, Toshihiro Matsumura, Keizo Mizuno, Tomoya Mori, Se-il Mun, Tatsuhiko Nariu, Daisuke Shimizu, Annalisa Vinella, and Morihiro Yomogida for their helpful comments and suggestions. regarding a previous version of this paper. This work is financially supported by MEXT. OPEN RESEARCH (2004-2008) and Grants-in-Aid for Scientific Research (no. 20530256, 20730169, 23530303). All remaining errors are our own.

†*Corresponding Author*; Address: 1-3-1 Tsuchitoi, Aoba-ku, Sendai, Miyagi 980-8511, Japan; Tel/fax: +81-22-721-3295; E-mail: hkurata@tscc.tohoku-gakuin.ac.jp