

Impact of country-specific fixed cost on the international location of firms, comparative advantage, and the distribution of trade gains / Koji Shintaku

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Abstrak

ABSTRACT

We theoretically investigate how country-specific fixed (CSFCs) affect the international location of firms, comparative advantage, and the distribution of trade gains, by presenting a two-country trade model of monopolistic competition with CSFCs. Key settings are that the expenditure shares of a homogeneous good and composite differentiated good are constant, and that the only difference across countries is in terms of fixed costs (Ricardian aspect). We derive the following results. A country with smaller fixed costs (home country) has a greater-than-proportional share of the firms of differentiated goods, a comparative advantage in differentiated goods, and higher trade gains. A unilateral decrease in CSFCs of the home (foreign) country increases (reduces) these inequalities around the arbitrary trading equilibrium with incomplete specialization. When the CSFCs decrease bilaterally, the resulting impacts depend on the relative rate at which CSFCs change.