Market Size, Strategic Location Decision, and Economic Welfare *

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Abstract

We consider an economy which a fixed number of firms locates either a large size market and a small size one. We address the two problems: (1) How the market size differences affect the firm's location pattern in both markets? (2) Is firm's location choice efficient for viewpoint of economic welfare? We establish: (1) If business-stealing (resp. business-augmenting) effect prevails and if the price elasticity is high (resp. low) , then relocation rate is higher (resp. lower) than growth rate in the large market size. (2) location in the large markets is excessive from viewpoint of both the social surplus and producer surplus, while it is insufficient from consumer surplus.

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