Footloose Capital and Comparative Advantage

Yuji Matsuoka *and Toru Kikuchi †

Kobe University Working Paper Series No. 255, July 2009

July 2, 2009

Abstract

We show how country size differences and Ricardian technology differences can interact for firms' location within a two-country, two-good (homogeneous good and differentiated high-tech products), two-factor (labor and "footloose" capital) model.

We show that, first, when technology differences exist between countries, freer trade makes technological advantage more important factor in terms of firms' location. Second, a large size differential between countries leads to full agglomeration in the large country for higher levels of trade cost.

Keywords:footloose capital, comparative advantage, firm location

JEL classification: F12, F29

*Corresponding Author: Yuji Matsuoka, Graduate School of Economics, Kobe University, 2-1, Rokkodai-cho, Nada-ku, Kobe, Hyogo, 657-8501, Japan. TEL: +81-90-8579-3603. FAX: +81-78-803-6838. E-mail: 081e108e@stu.kobe-u.ac.jp

†Toru Kikuchi, Graduate School of Economics, Kobe University, Graduate School of Economics, Kobe University, 2-1, Rokkodai-cho, Nada-ku, Kobe, Hyogo, 657-8501, Japan. TEL/FAX: +81-78-803-6838. E-mail: kikuchi@econ.kobe-u.ac.jp