

# The Home Market Effect in a Multicountry Space

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April 20, 2011

## **Abstract**

New Trade Theory studies international trade by focusing on the role of increasing returns to scale. Most papers in this field assume costless trade in the agricultural sector, which equalizes the wage rates in all countries. A recent paper of Takahashi et al. (2010) propose a minimal model without the agricultural sector and finds that the larger country always has a larger firm share and a higher wage rate (the home market effect). Meanwhile, assuming a space of two countries makes the interaction among countries too simple: moving away from one country automatically implies that goods/factors go to the other country. This paper extends the framework of Takahashi et al. (2010) to a space of multiple countries, and shows that the home market effect exists again.