Do Larger Countries Have Higher Wage Rates?

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Abstract

Existing intra-industry trade models with two countries and inelastic labor supply show that a larger country has a higher wage rate and higher individual income. We reexamine these outcomes by use of a model with endogenous labor supply. We show that each outcome in existing models can be reversed as well as that the larger country may have less-than-proportionate share of firms. Especially, if workers' love of variety is strong (resp. weak) enough, the larger country may have a lower wage rate (resp. individual income).

Key words: Country size, Endogenous labor supply, Wage rate, Income, Home market effect.

JEL Classification: F12, F21, R12.

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