

An Analysis of Changes in Wealth Distribution and Economic Development upon the Entrance of an Foreign Direct Investment Firm

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January 20, 2012

Abstract

This paper examines the changes of an economy relevant to wealth distribution and development upon an entrance of an FDI firm. The framework is based on the economic development model generalized by Matsuyama (2011), where the question of how credit constraints affect household wealth distribution and development dynamics is discussed. In this framework, the participation of an FDI firm is introduced to the theoretical literature in the context of a closed economy as an actual foreign factor. According to the computational analysis and the simulation result, it shows that the joining of an FDI firm may play a role as a “big push” or “underdevelopment trap” to the social equality and development. Any change in the set-up cost for starting a new business, or in altruism toward the next generation have an influence on this role.