

Congested Market and Economic Geography: Abstract

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In this paper, we investigate the effect of competition for attention among firms on economic geography. To do so, we introduce consumers' limited availability of varieties of differentiated goods into new economic geography (NEG) model. Since consumers do not necessarily have access to all the varieties in the market, firms need to compete with one another for attracting consumers. As to the competition for attention, we consider two cases of the forms of competition: one is to make efforts so as to stand out relatively in the market; the other is to increase the opportunities for their own products to be perceived by consumers. We refer to the former case as "relative competition," and the latter case as "absolute competition."

First, we construct the model with single region, on which our analysis will be based. In order to see the characteristics of the model, we examine the relationship between the fierceness of competition for attention and the number of varieties to which each consumer has access, and the relationship turns out to be inverted U-shaped. We also compare the social optimum with market equilibrium. We find that the entry of firms tends to be excessive when the competition for attention is mild; while it tends to be less than social optimum when the competition for attention is fierce.

Then, we extend the model with single region to that with two regions. We introduce another spatial friction in addition to trade costs: information is diminished when it is conveyed across regions. That is, it is more difficult for a firm to attract consumers living in foreign region than home region. This friction enables us to endogenize the difference in the number of varieties consumed in the core and peripheral regions, which has been neglected so far in NEG models.

Finally, we investigate how the spatial configuration is affected by the decline in trade costs. When firms are engaged in relative competition, the bifurcation pattern is like the most familiar outcome of preceding NEG models; "supercritical pitchfork bifurcation." However, when firms are engaged in absolute competition, it turns out that another dispersion force emerges and we observe redispersion of economic activities: that is, "bell-shaped bifurcation" arises.

The dispersion force we observe in our model can give a new insight into industrial locations. Since it depends on the form of competition for attention whether economic activities disperse when trade costs are low, investigating what industries are engaged in absolute competition turns out to be crucial to examining empirically the effect of competition for attention on industrial locations.