

# Accepted Manuscript

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PII: S0166-0462(18)30024-3

DOI: [10.1016/j.regsciurbeco.2018.04.005](https://doi.org/10.1016/j.regsciurbeco.2018.04.005)

Reference: REGEC 3356

To appear in: *Regional Science and Urban Economics*

Received Date: 3 February 2016

Revised Date: 21 March 2018

Accepted Date: 5 April 2018

Please cite this article as: Barbero, J., Behrens, K., Zofío, José.L., Industry location and wages: The role of market size and accessibility in trading networks, *Regional Science and Urban Economics* (2018), doi: 10.1016/j.regsciurbeco.2018.04.005.

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# Industry location and wages: The role of market size and accessibility in trading networks\*

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March 19, 2018

## Abstract

We analyze the effects of local market size and accessibility on the spatial distribution of economic activity and wages in general equilibrium trade models with many asymmetric countries and costly trade for all goods. In models with a homogeneous sector, local market size is generally more strongly correlated with a country's industry share, whereas accessibility better explains a country's wage. We analytically show that result in a simplified case and then confirm it using simulations with random trading networks. In models with only differentiated sectors, both local market size and accessibility are highly correlated with wages. The impact of local market size on industry location is more robust than the impact of local market size on wages in economic geography models.

**Keywords:** Market size; accessibility; trading networks; industry location; wages.

**JEL Classification:** R12; F12; C63

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\*We thank the editor, Laurent Gobillon, and two anonymous referees for very useful comments. We further thank Jacques Thisse, Gianmarco Ottaviano, Diego Puga, Ted Rosenbaum, Rafael Moner-Colonques, and Inmaculada C. Álvarez, as well as conference participants at the 2014 NARSC Meetings in Atlanta, the 3rd Workshop on Urban Economics in Barcelona, and the 10th Meetings on Economic Integration in Castellón, for useful comments and suggestions. Barbero acknowledges financial support from the Spanish Ministry of Education (AP2010-1401). Behrens acknowledges financial support from the CRC Program of the Social Sciences and Humanities Research Council (SSHRC) of Canada for the funding of the *Canada Research Chair in Regional Impacts of Globalization*. Barbero and Zofío acknowledge financial support from the Spanish Ministry of Science and Innovation (ECO2010-21643, ECO2013-46980-P, and ECO2016-79650-P). This study was funded by the Russian Academic Excellence Project '5-100'. Part of the paper was written while Barbero was visiting UQAM, the hospitality of which is gratefully acknowledged. The views expressed in this paper and any remaining errors are ours, and may not in any circumstances be regarded as stating an official position of the European Commission.

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