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Regional Economic Geography with Externalities, Congestion, and Fiscal Policies in a Small-Open Growth Economy

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ABSTRACT
This paper develops a two-regional growth model with amenity, capital accumulation and regional public goods with public goods and fiscal policies. The economy consists of two regions and each region consists of the industrial sector and public sector. The industrial sector provides goods in perfectly competitive markets. The public sector, which is financed by the regional government ' s tax incomes, supplies regional public goods. The public goods affect both firms and households. We show how to find equilibrium values of the dynamic system and simulate model. Then, we carry out comparative statics analysis with regard to parameter changes in tax rates, congestion and amenity. Our comparative statics analysis provides some important insights. For instance, a main difference between the effects of increasing the two regions ' tax rates on the output is that as the technologically advanced region ' s (the other region ' s) tax rate on the industrial sector is increased, the national industrial output, national capital employed by the economy, and the national wealth are increased (reduced). In the region which increases the tax rate, the wage rate, consumption and wealth per capita, output per labor force, the population, and land rent are increased, and the corresponding variables in the other region are reduced.

KEYWORDS
Small-Open Interregional Economy, Regional Fiscal Policies, Capital Accumulation, Endogenous Amenity, Public Goods

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