Economic geography meets Hotelling: a *home-sweet-home* effect*

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Abstract

We present a two-country New Economic Geography model where all consumers are inter-regionally mobile and have Hotelling-type heterogeneous preferences for location. The utility cost from residing in a location that is not the preferred one generates the only dispersive force of the model: the home-sweet-home effect. Different functional forms of preferences for location induce different spatial distributions in the long-run. We show that, under reasonable values for the elasticity of substitution, higher trade costs promote more asymmetric spatial distributions, irrespective of the characteristics of the home-sweet-home effect.

Keywords: heterogeneous location preferences; economic geography; migration;
JEL codes: R10, R12, R23

1 Introduction

New Economic Geography (NEG) seeks to explain the observed uneven spatial distribution of economic activities. In the prosecution of this objective, it hinges heavily on

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