

Urbanization and International Trade - A Possible Relationship

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Abstract

Abstract: In this talk we present a model incorporating the effects the level of urbanization in a given country may have on the proportion of people who eliminate the cultural cost of international trade by learning. We postulate that due to economies of scale, the higher the level of urbanization in a country, the larger the proportion of the population with low cultural learning costs. By investigating a certain class of cost distributions, we find that depending on the relative sizes of the physical and cultural costs of trade we may see either the larger or the smaller of two countries exhibiting the larger share of learners. This result departs from that of Kónya (2006) whose model we extend. Our model also provides a possible explanation of over-urbanization as a result of the social planner trying to increase the number of learners in a country.