International Increasing Returns and Patterns of Investment on Transport Infrastructure

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Abstract

This paper develops a two-country model of intraindustry trade in which overseas shipping requires the use of an international transportation service and national governments invest on the transport infrastructure. Investment on the transport infrastructure reduces transport costs and thereby improves national welfare. This paper investigates what patterns of public investment can be derived as equilibrium outcomes and whether these equilibrium investment patterns are socially efficient.

Key words: Trade; Transport costs; Infrastructure; Coordination failure
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