

propose the linear core-periphery model. In this work we claim that there is another particular channel through which equilibrium prices exhibit a dependence on the spatial distribution of firms and consumers which acts through preference heterogeneity which we introduce in the linear core-periphery model

By considering a simple potential kind of heterogeneity in the consumption of different goods among different consumers we are able to describe an additional source of dependence of equilibrium prices on the demand properties shaped by the interregional distribution of workers. In particular, this force can either strengthen, or weaken the process which leads to agglomeration. In fact, it reinforces agglomeration when skilled workers have a weaker preference for the modern good and variety in its consumption, with $\rho > 1$, which implies that prices charged by both local and foreign firms are obliged to fall when the mass of local firms increases. However, when the intensity of skilled workers' preference for the modern good and its variety is stronger, that is when $\rho < 1$, prices charged by firms, either local or foreign, may even increase when the mass of local firms increases therefore acting as a dispersion force. These results arise in our work from the fact that, together with the *competition effect* on prices generated by changes in the distribution of workers and firms, we consider the additional effect on prices due to preference heterogeneity which acts through the change in the relative weight of demand for the modern goods with respect to the traditional good, that is the *preference effect*.

Moreover, the introduction of taste heterogeneity allows us to provide another explanation of the potential outcome of asymmetric equilibria. Finally, we would like to stress that, by introducing forces generated by simple workers' preference differences on the consumption of goods, this work simply adds another plug to the complex mosaic of forces considered by NEG models as responsible of the shaping of economic activity distribution in space.

References

R. Baldwin, R. Forslid, P. Martin, G. Ottaviano, F. Robert-Nicoud, *Economic Geography and Public Policy*, Princeton University Press, 2003.

- M. Fujita, J. F. Thisse, *Economics of Agglomeration*, Cambridge UP, 2002.
- R. Forslid, I. Wooton, Comparative advantage and the location of production, *Review of International Economics* 11 (2003), 588–603.
- E. Helpman, The size of regions, in: D. Pines, E. Sadka and I. Zilcha, eds, *Theoretical and Applied Analysis* (Cambridge University Press, Cambridge), 1997.
- P. R. Krugman, Increasing Returns and Economic Geography, *Journal of Political Economy* 99 (1991), 483–499.
- P. Krugman, A. J. Venables, Globalization and the Inequality of Nations, *Quarterly Journal of Economics* 110 (1995), 857–880.
- P. Krugman, A. J. Venables, Integration, Specialization and Adjustment, *European Economic Review* 40 (1996), 959–967.
- Y. Murata, Product diversity, taste heterogeneity, and geographic distribution of economic activities: market vs. non-market interactions, *Journal of Urban Economics* 53 (2003), 126–144.
- D. Puga, A. J. Venables, The Spread of Industry: Spatial Agglomeration in Economic Development, *Journal of the Japanese and International Economies* 10 (1996), 440–464.
- J. Robinson, *The Economics of Imperfect Competition*, MacMillan, London and New York (2nd edition), 1969.
- G. Ottaviano, T. Tabuchi, J. F. Thisse, Agglomeration and Trade Revisited. *International Economic Review* 43 (2002), 409–435.
- G. Ottaviano, J. F. Thisse, Agglomeration and Economic Geography, in *Handbook of Regional and Urban Economics*, vol. 4, forthcoming.
- T. Tabuchi, J.F. Thisse, Taste heterogeneity, labor mobility and economic geography, *Journal of Development Economics* 69 (2002), 155–177.
- A. J. Venables, Equilibrium Locations of Vertically Linked Industries, *International Economic Review* 37 (1996), 341–359.