

Stay or Leave?: Choice of Plant Location with Cost Heterogeneity*

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Abstract

In a two-country model, we examine location choices by two domestic firms when they serve only domestic market and their cost structures are different. Whether the firm which has an incentive to undertake foreign direct investment is more efficient or less efficient than the other depends on the difference in their marginal costs and the presence of fixed costs. We may have multiple equilibria. Moreover, a decrease in trade costs may deteriorate domestic welfare.

Keywords: foreign direct investment; heterogeneous firms; location choices

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