

Abstract of “Lowered Beachhead Cost in a Simplified Melitz Model with Heterogeneous Fixed Cost”

Planned to be presented at a conference of Japan Society of International Economics held at Fukuoka University on June 8, 2013.

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This paper is a first attempt to construct a Melitz-like model with fixed cost heterogeneity and proportional beachhead costs, that is fixed exporting costs, proportional to its fixed costs. I will use this model to discuss the effect that decrease has on specialisation.

While Melitz(2003) shows a model which has marginal costs heterogeneity and iceberg -type transport costs in its assumptions, in the model in this paper there are no iceberg-type transport costs incorporated, and two-country trade of differentiated and a homogeneous product are assumed.

In the end, this paper, a Simplified Melitz Model with the above assumptions is presented, and the effects of beachhead costs on specialisation are discussed. Melitz has an assumption that in every country, or in both countries in two-country-trade model as in the present paper, some manufacturers which produce differentiated goods do not engage in exporting its goods, which is necessary to explain the reality that manufacturers engaging in trade are not numerous. On the other hand, in this paper, with a possibility that all manufacturers export its goods in one country or both countries taken into consideration, the influence of lowered beachhead costs on specialisation in production and trade is illuminated.

The results obtained are,

- 1) At the lowest beachhead costs, all manufacturers in both countries engage in trade, like a familiar monopolistically competition trade model of Krugman (1981).
- 2) At highest beachhead costs, some manufacturers do not engage in trade, so that Melitz-like world appears.
- 3) At beachhead costs at a moderate height, in a country with smaller scale,

no manufactures are produced, so that it produces only homogeneous agricultural product.

These results are contrasted with specialisation patterns in a traditional monopolistic competition model with iceberg transport cost and homogeneous product which is used to illustrate home market effect, which are detailed in Mizuta (2013).