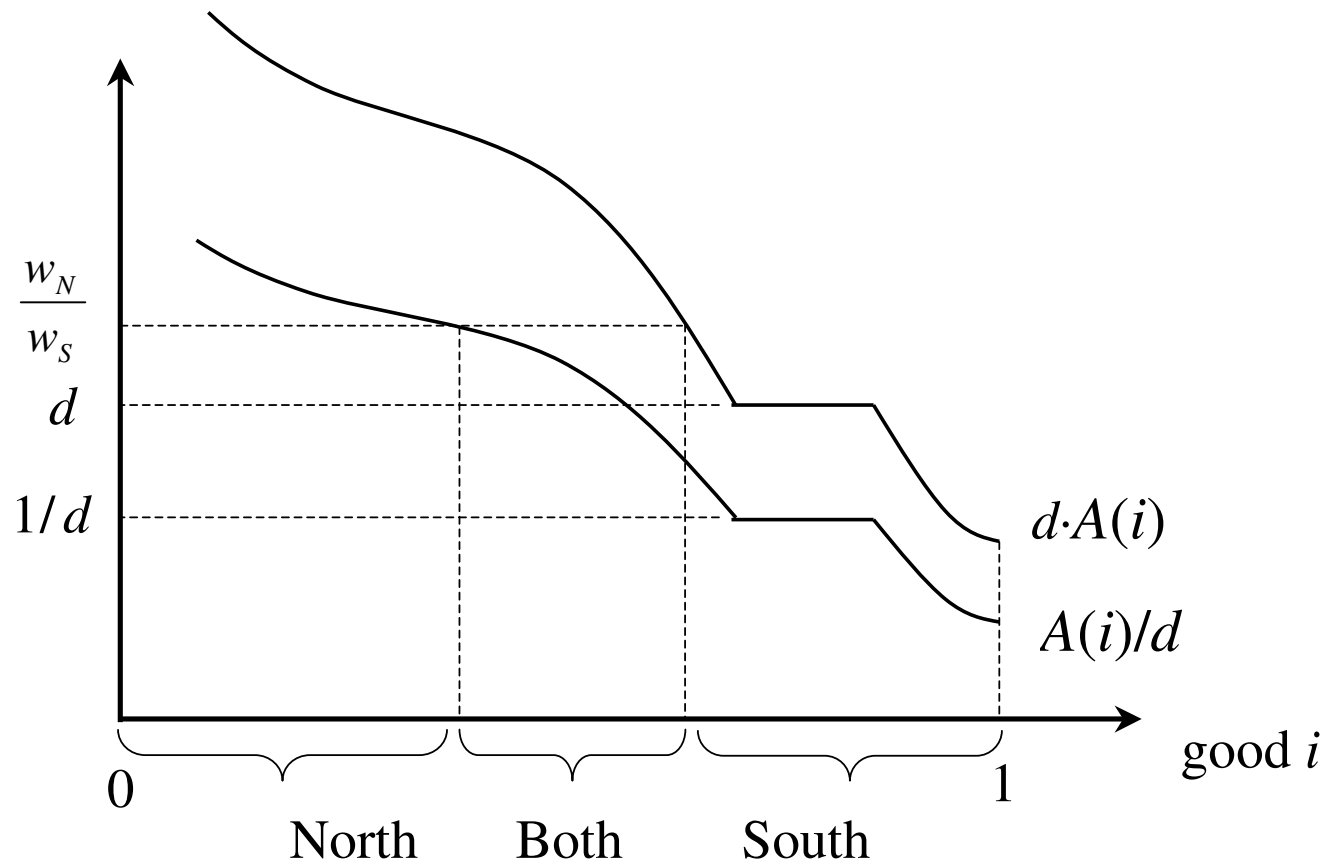
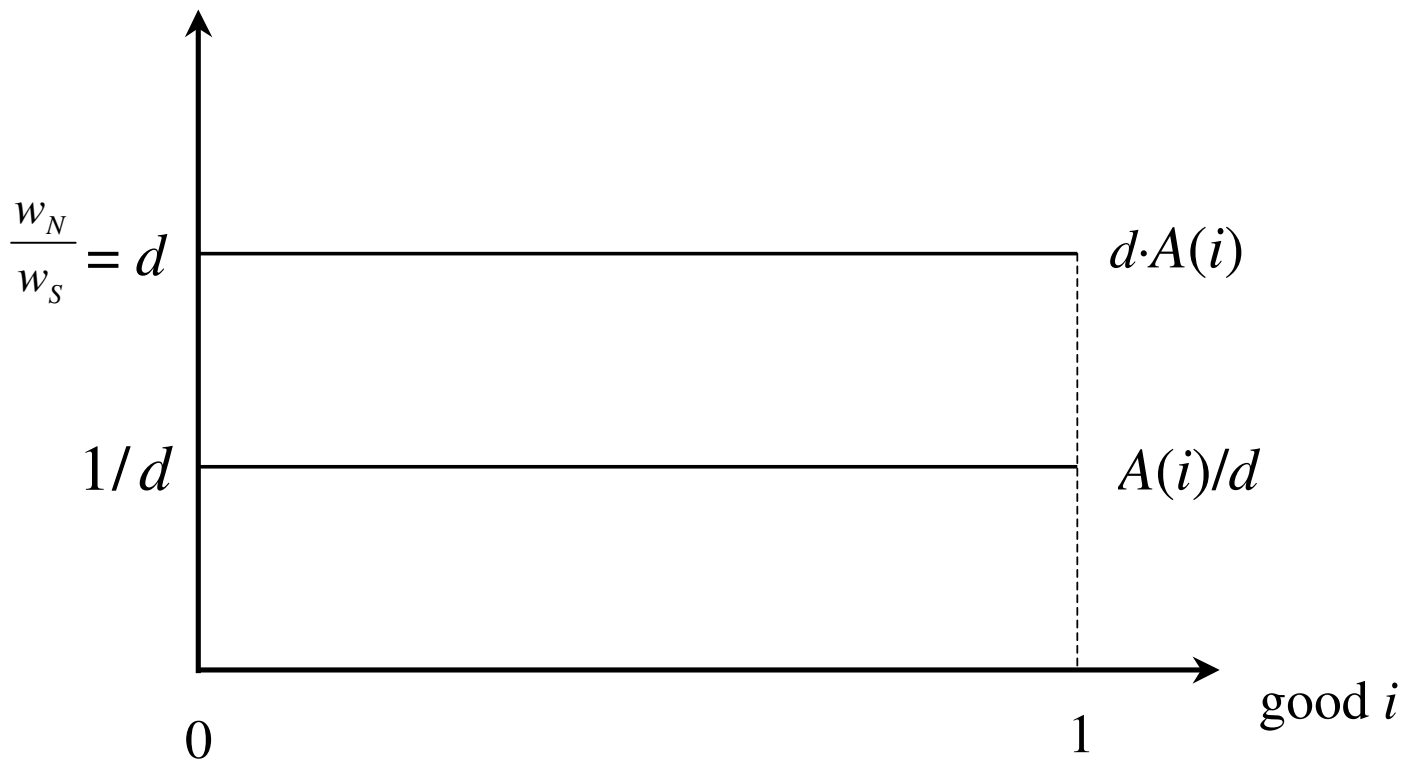


$$d > 1$$

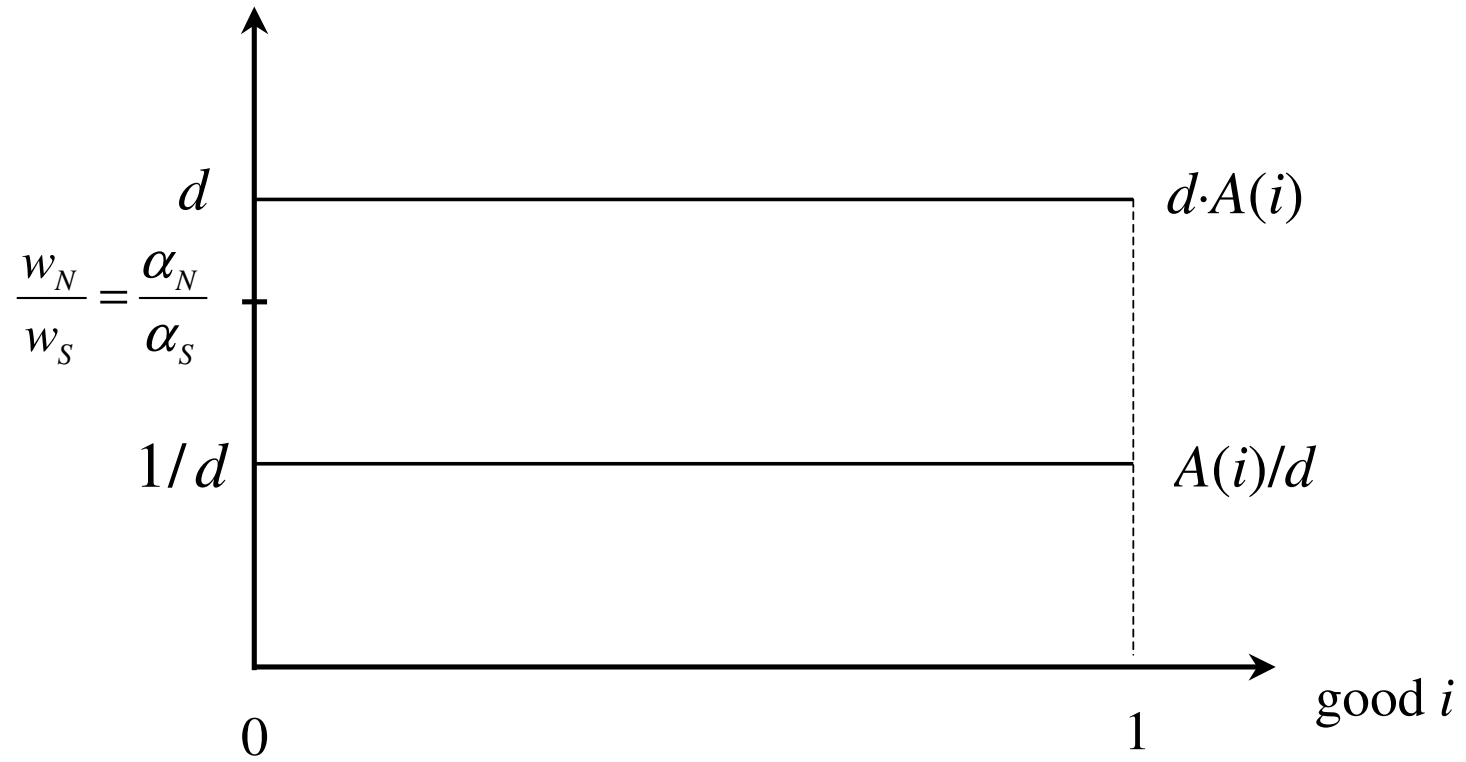


- Where is R&D located? How does this depend on transport costs?
- Blueprints and other economic goods differ on the nature of trade costs they face:
  1. Other economic goods: time-invariant and proportional trade costs equal to  $d$  (“trade barriers”)
  2. Blueprints: prohibitive initially and they switch to negligible with probability  $\varepsilon$  (“speed of diffusion”)
- It depends on  $\alpha_N/\alpha_S$  relative to  $w_N/w_S$ . Same results as before.
- But productivity differences are endogenous. Still same results as before.

$$\frac{\alpha_N}{\alpha_S} > d$$



$$\frac{\alpha_N}{\alpha_S} < d$$



- What is “technology diffusion”? Why does it have a “geographical” component?
  1. From innovator to producer (moral hazard, hold-up problems, ...)
  2. The choice of location and the product cycle:
    - a. IPRs (... but patents are right to “sell” and not to “produce”)
    - b. Changes in production technology with the life cycle of products (factor proportions, ...)
- To crack this problem, we need to go back and work more on the micro foundations before we return to the general equilibrium perspective.