

TITLE: Selection, Market Size and International Integration: Do Vertical Linkages Play a Role?

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ABSTRACT: We analyze how increases in the market size and in the level of international integration interact with the process of selection among firms with heterogeneous productivity levels when they are interconnected by vertical linkages. We show that larger economies do not always exhibit higher productivity levels and higher welfare levels. Specifically, when vertical linkages among firms are allowed, and they are relatively weak (strong), an increase in the market size softens (toughens) the competition facing firms in this market and more firms of a lower (higher) efficiency survive, increasing (decreasing) the welfare level. Moreover, when costly trade occurs between two symmetric countries, an increase in the level of economic integration softens competition only for intermediate vertical linkages, worsening the welfare level only for strong linkages.

Keywords: firm selection, vertical linkages, market size, international integration.

J.E.L. Classification: F12, F14, F15, R12, R13

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