

Abstract

In this dissertation, I examine the causes and consequences of spatial inequality. Furthermore, I present the most current knowledge on how quantitative spatial models can serve as a tool to analyze the distribution of economic activity across space. In a collection of research papers, I investigate in particular (i) how market integration and fiscal policy shape the spatial allocation of economic activity, and (ii) how urbanization affects wage inequality. The first and second essays are joint works with Tobias Seidel and Jens Suedekum.

In the first essay, we use a quantitative model to study the implications of European integration for welfare and migration flows. The model suggests that the dismantling of trade barriers in Europe has led to moderate welfare gains and a more homogeneous spatial distribution of economic activity. We also look ahead in time and evaluate different scenarios for the Brexit. We find moderate welfare losses for the UK and continental Europe. In the most unfavorable scenario, about 500,000 people would leave the UK in the long run.

The second essay evaluates the importance of governmental activity for the spatial distribution of economic activity. We use a general equilibrium model with fiscal equalization to show that regional transfers are quantitatively important for understanding the spatial allocation of economic activity. Using data from Germany, we show that the abolition of fiscal equalization would lead to a welfare gain implying sizeable migration responses of individuals.

In the third essay, I identify the role of urbanization for wage inequality. A decomposition of the change in wage inequality suggests that urbanization has contributed about one-third to the growth of wage inequality in (West) Germany between 1985 and 2009.