Climate Change and Migration: the case of Africa

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Motivation

- Implications of climate change (CΔ): at the center of the policy debate
- Drastic (potential) consequences for Sub-Saharan Africa (SSA):
  - High dependence on agriculture
  - Low usage of modern inputs
  - Rapid population growth

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  - Low usage of modern inputs
  - Rapid population growth

- Great Climate Migration (Lustgarten, 2020):
  - High vulnerability of SSA (in terms of migration responses to CΔ)
  - Rigaud et al. (2018): intranational climate migration $\sim$ millions by 2050

Research Questions and Outline

1. How can CΔ lead to migration flows in SSA (within/across countries)?
2. How economic mechanisms and potential policies interact with CΔ effects?

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This project: Data + Model = long-run GE effects of climate change

1. Climate change: agricultural productivity shock
    - FAO-GAEZ data: variation at location-crop level
2. Embed it in a multi-sector spatial GE model to quantify:
    - CΔ migration by the end of the 21st century
    - Role of migration and trade policies on CΔ effects

Main Results and Takeaways

1. Aggregate CΔ effects:
   - Migration flows (22 million) and real GDP pc losses (-1.8%)
   - Magnitude of results: determined by spatial frictions
2. Distributional effects:
   - Heterogeneous migration responses across space [-280K, 270K]
   - Country-level welfare effects: [-14%, 3%]
   - Production adaptation across sectors + trade: mitigate CΔ effects
3. SSA as the European Union ($\downarrow$ trade and migration barriers):
   - EU's migration and trade policies: $\downarrow$ aggregate and distributional losses
   - Main channel: CΔ-induced structural change

Data

Spatial Data: $1^\circ \times 1^\circ$ grid cells ($\sim$ 2000 cells) more

1. GDP and Population:
   - 2000: both values from (G-Econ, Nordhaus et al., 2006)
   - 1975: population from (GHSP, Florczyk et al., 2019)
   - 2080: population estimates (UN's Population Prospects, at the country level)

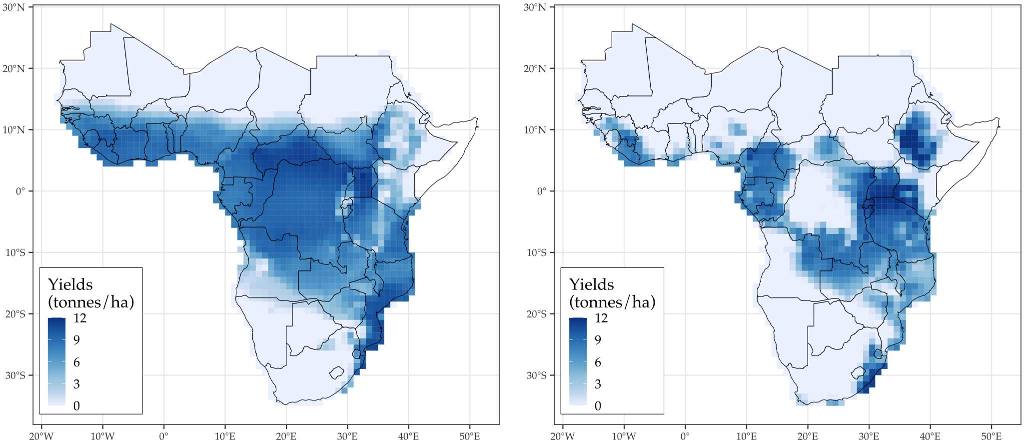
2. Transportation network: African extract from gROADS and transportation friction surface from Weiss et al. (2018)

3. Agriculture: GAEZ agro-climatic potential yields (IIASA and FAO, 2012):
   - Unit: tons/ha, subsistence (rainfed) technology
   - Crops: cassava, maize, millet, rice, sorghum, wheat
   - Time periods: 1975, 2000 and 2080 (RCP 8.5)

CΔ and Agricultural Productivity

spatial–crop heter. production

Figure 1: CΔ effects on potential yields of cassava for 2000 (left) and 2080 (right).



Model, Calibration, and Counterfactuals

Model and CΔ Counterfactuals Outlook

- Static, multi-sector spatial GE model
  - Love for varieties (consumers) **+**
  - Trade frictions (production and trade) **+**
  - Congestion forces (location choice) **=**
  - Main outcomes: sectoral production takes place in the most productive regions

- Calibration: replicates SSA economy
  - Crop productivities by early 21st century
  - Migration frictions $\leftrightarrow$ internal **+** international migration data
  - Trade frictions $\leftrightarrow$ international trade flows **+** crop price data

- Climate change: shock to the crop productivities (end of century)
  - Reshuffles economic activity (and population)

Main Counterfactual Details

- Solve for the model's spatial equilibrium with:
  - Population estimates for end of 21 century**+**

  1. Crop suitabilities with CΔ **-**
  2. Crop suitabilities with (no CΔ)

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- Solve for the model's spatial equilibrium with:
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1. Crop suitabilities with CΔ -
2. Crop suitabilities with (no CΔ)

- Results: CΔ migration ($\sim$ 22 million), welfare losses (real GDP pc $\downarrow$ 1.8%), non-agricultural employment ($\downarrow$ 0.82%) CΔ migration empl. results welfare results

		Location Level			Country Level			
	Aggregate	Bottom decile	Median	Top decile	Angola	Senegal	Nigeria	Tanzania
Δ Population (K)	22,315.27	-108.05	-0.63	94.59	-1,686.26	-347.16	133.24	2,760.20
Δ Non–agric.	-0.82	-10.89	-1.40	16.16	4.92	2.78	-0.31	-2.53
Δ Real GDP pc	-1.76	-22.86	-3.76	4.56	-16.60	-32.81	-1.11	2.50

Figure 2: Climate migration in SSA – baseline results for 2080. back

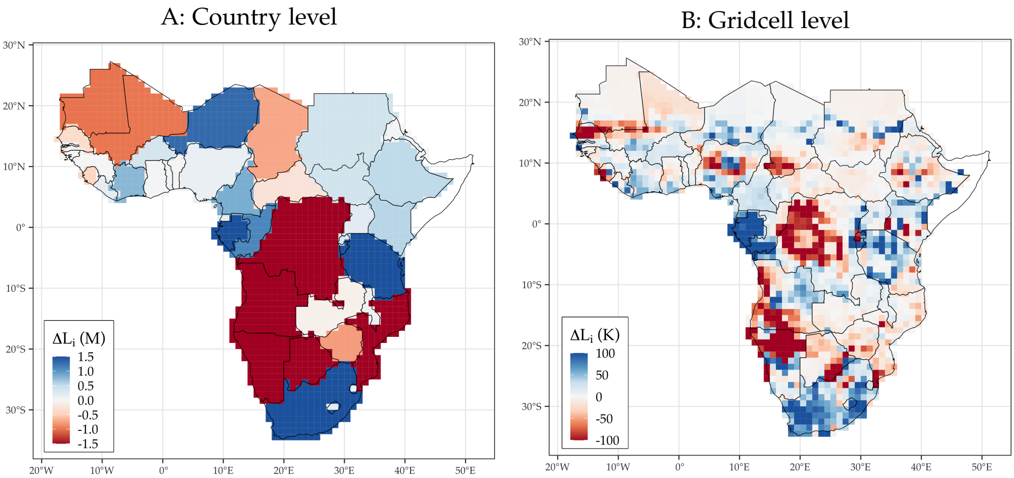


Figure 3: Climate change impact on non-agricultural employment. back

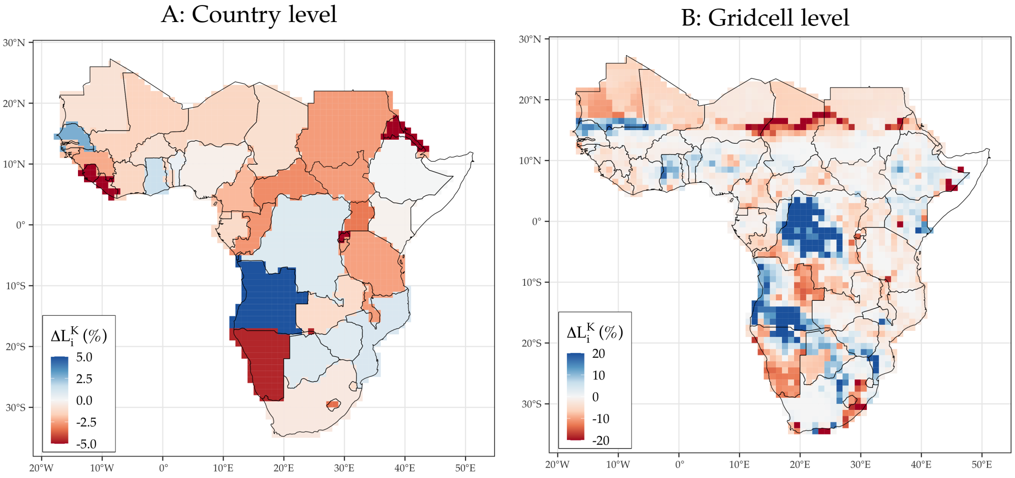
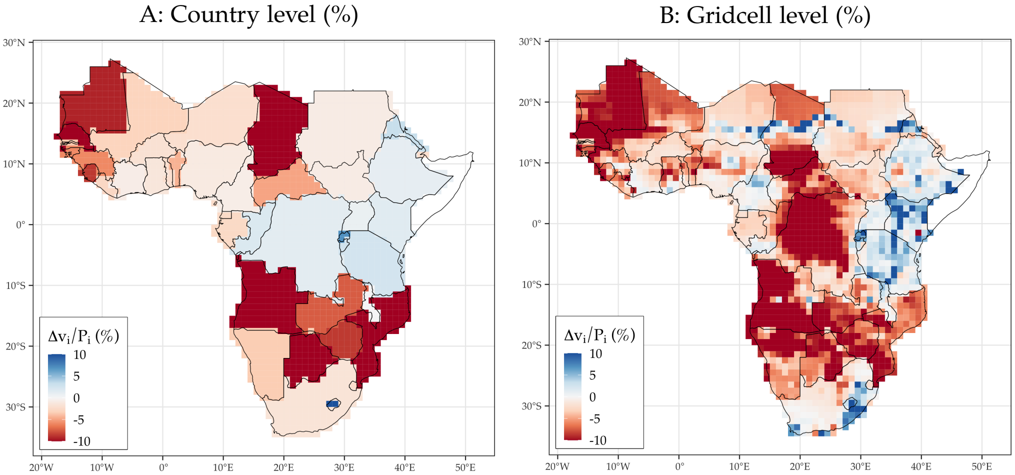


Figure 4: Climate change impact on real GDP per capita. back



Policy Experiments: Migration and Trade Policies

A. Trade, Migration, and Sectoral Specialization: mitigating role;
  - Trade: attenuates ”the food problem” (Gollin et al., 2007; Nath, 2022)
  - Trade and migration: subsitutes as adaptation (Conte et al., 2021)
  - Migration: key adaptation (Cruz and Rossi-Hansberg, 2023)

B. Policy Experiment: SSA as the European Union (trade/migration policies)

		SSA as frictionless as the EU details		
	Baseline	Migration Policy	Trade Policy	Both
Δ Pop. (M)	22.32	34	9.18	20.46
Δ Non–agric. (%)	-0.82	-0.54	-0.84	-0.76
Δ GDP pc (%)	-1.76	-1.01	-1.31	-1.41
[bottom, top]	[-14.62; 3.27]	[-11.32; 4.69]	[-6.32; 3.69]	[-5.64; 3.35]

Additional Experiments and Robustness Checks details

1. Additional Experiments
   - One-crop vs. multi-crop: larger welfare losses
   - Homothetic preferences: major welfare gains (economy substitute out agricultural goods for non-agric.)
   - Endogenous fertility: reduces population growth in damaged locations
     - Less climate migration
2. Robustness:
   - CΔ assumptions: RCP 4.5 (less severe)
   - Frictions to mobility: goods and labor

Final Remarks

Final Remarks

- Study and quantify climate migration in SSA by combining:
  - Rich spatial data for SSA
  - Tractable, transparent spatial GE model
- Main results: CΔ effects on migration, welfare, and structural change
  - Sector adaptation and trade: key adaptation mechanisms
  - Trade and migration policies: powerful mitigation tools (EU as benchmark)
- Beyond the (current) scope:
  - Rest of the world, land, other CΔ effects, innovation, political economy, ...

Thank you!

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Appendix

Contribution to the Literature: Details back

- Weather shocks and migration: empirical literature (Baez et al., 2017; Cai et al., 2016; Gröger and Zylberberg, 2016; Henderson et al., 2017)
- Spatial structural change (Desmet and Rossi-Hansberg, 2014; Eckert and Peters, 2018; Fan et al., 2021; Fajgelbaum and Redding, 2022; Takeda, 2022)
- Migration (barriers) and development (Bryan and Morten, 2019; Caliendo et al., 2021; Morten and Oliveira, 2018; Lagakos et al., 2018)
- Market integration and development (Asturias et al., 2019; Donaldson, 2018; Nagy, 2022; Ducruet et al., 2020; Sotelo, 2020; Atkin and Donaldson, 2015; Donaldson and Hornbeck, 2016; Atkin et al., 2021)

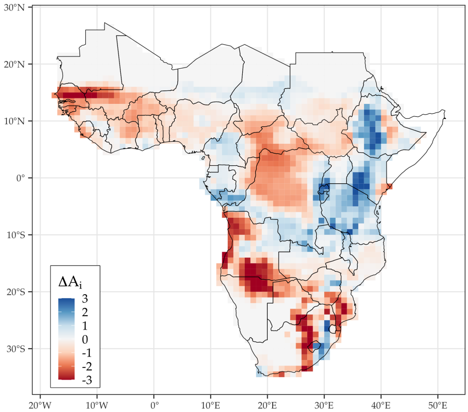
Additional Data Sources back

- Sectoral production data (2000 circa):
  - Crop-cell-level production (tons, FAO-GAEZ)
  - Crop-country-level production (US$, FAOSTAT)
  - Country-level sectoral VA (WBDI)
- Trade data: country-pair-sector tradeflows (1990-2005) from the International Trade and Production Database (ITPD-E, Borchert et al., 2021)
- Migration data: country-pair flows (1990-2005, from Abel and Cohen, 2019)

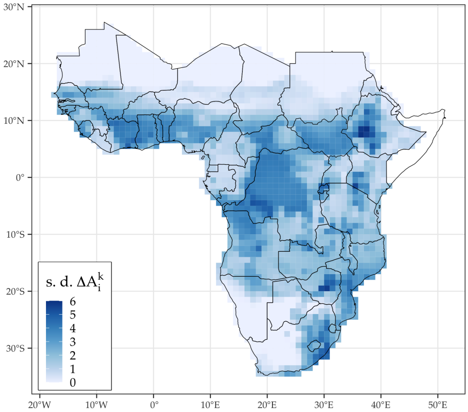
Heterogeneous Effects of CΔ

back

A: Change in average suitability to agriculture (ton/ha)

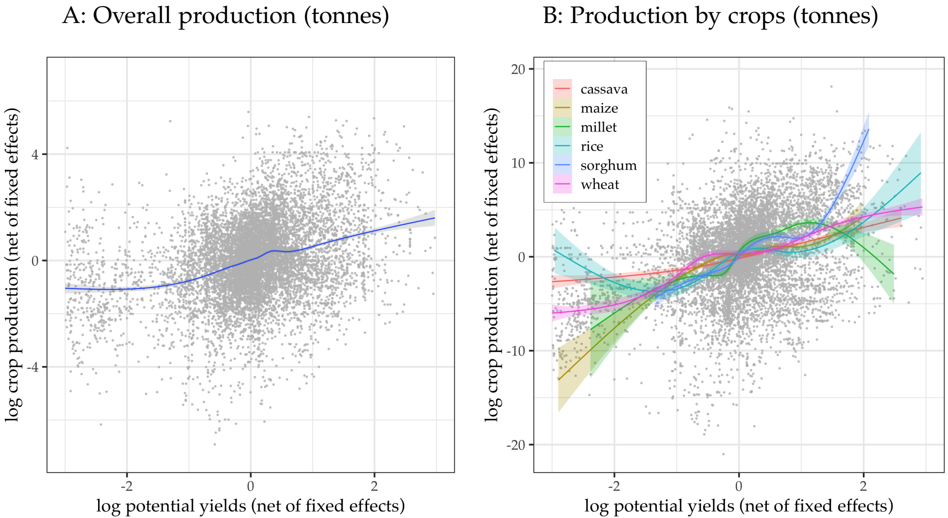


B: Standard deviation of changes in crop suitabilities at the location level



Potential Yields and Production in SSA

back

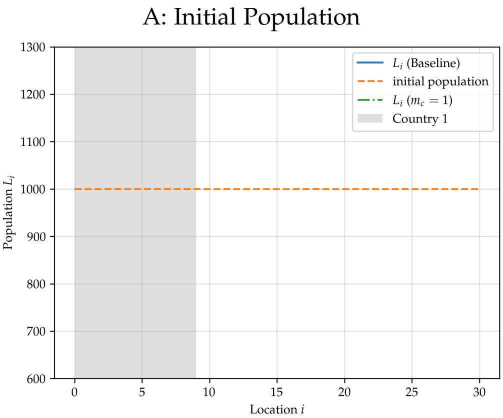


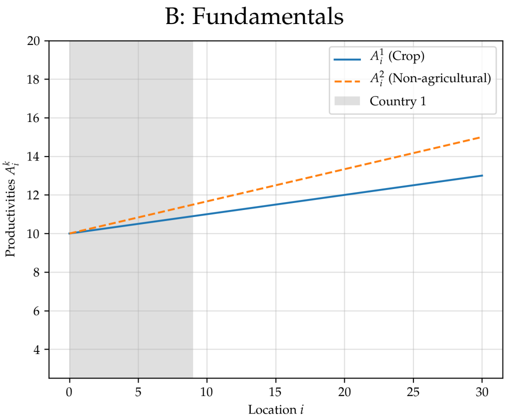
Notes: The two panels plot the relationship between GAEZ potential yields and effective production at the location–crop level. The blue line stands for an estimated polynomial regression of production on yields and location and country–crop fixed effects. Grey–shaded areas stand for 95% confidence bands.

Model – Economy as a Line

back

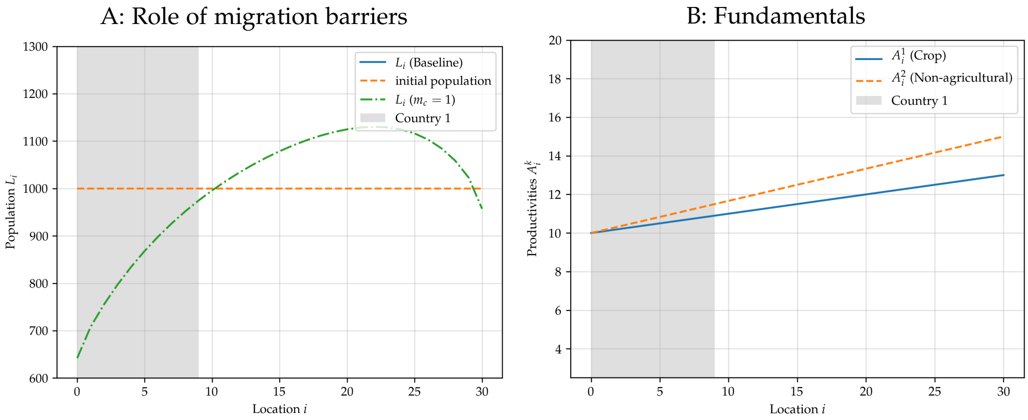
Figure 5: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.





Model – Economy as a Line back

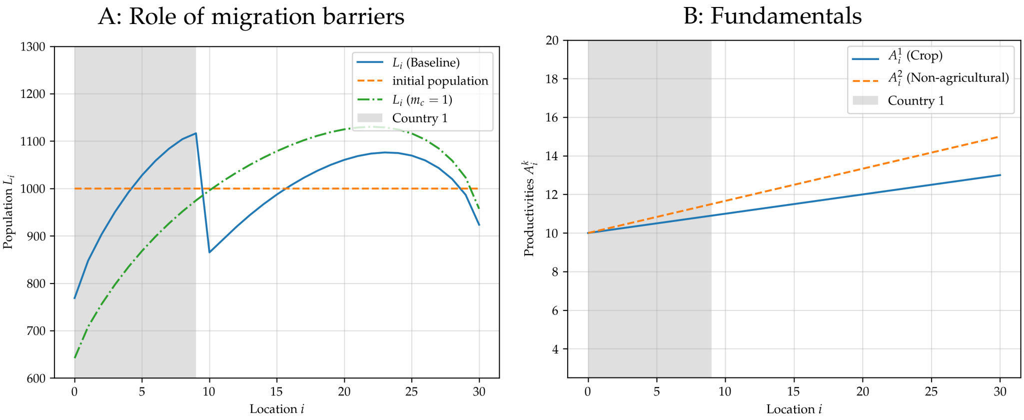
Figure 6: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



Model – Economy as a Line

back

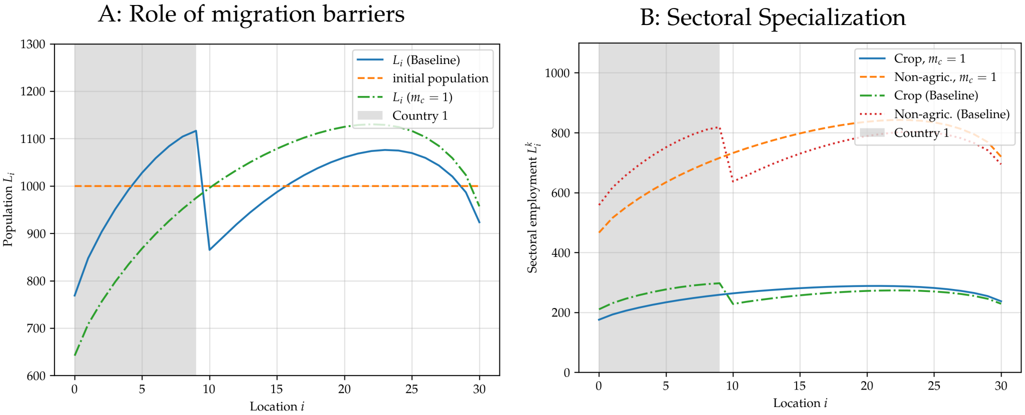
Figure 7: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



Model – Economy as a Line

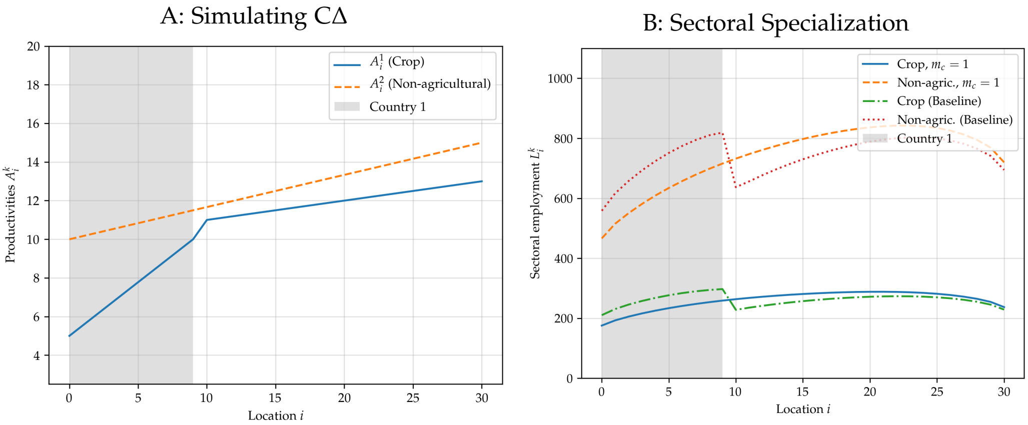
back

Figure 8: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



Model – Economy as a Line back

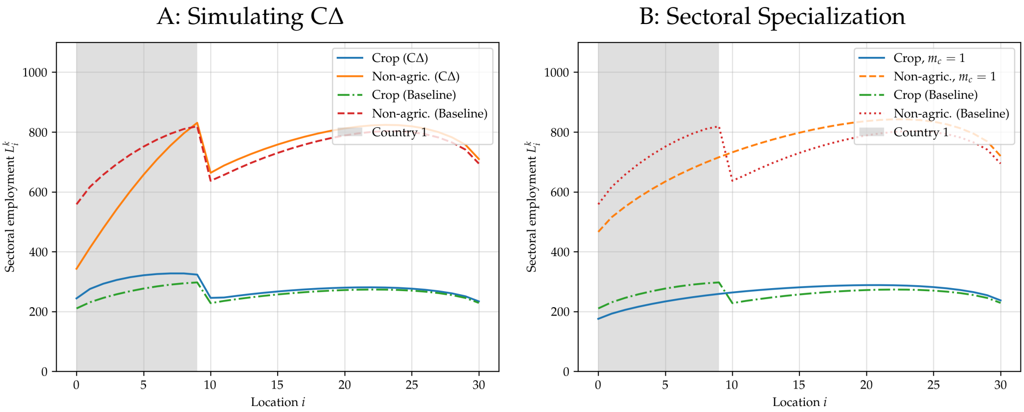
Figure 9: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



Model – Economy as a Line

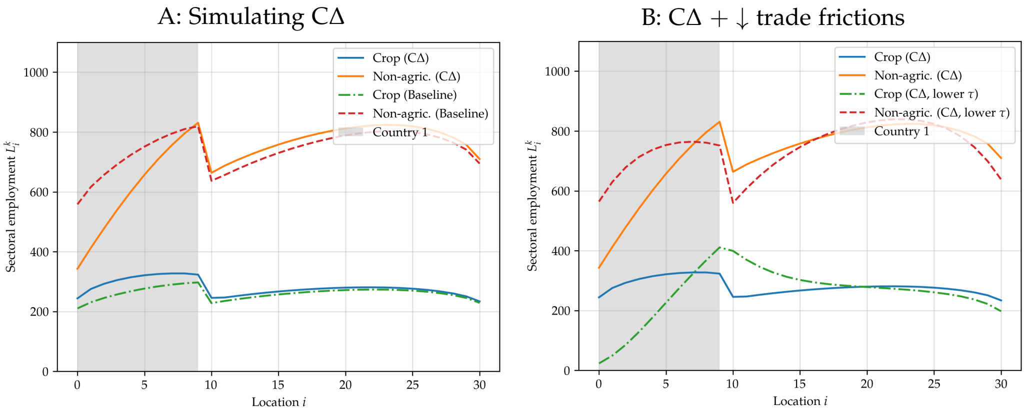
back

Figure 10: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



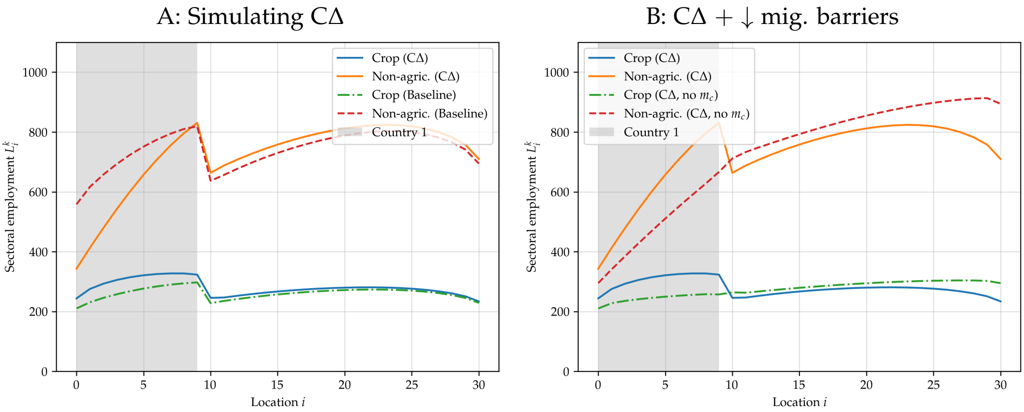
Model – Economy as a Line back

Figure 11: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



Model – Economy as a Line back

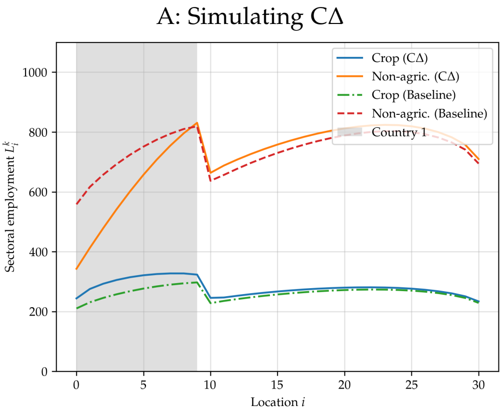
Figure 12: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.

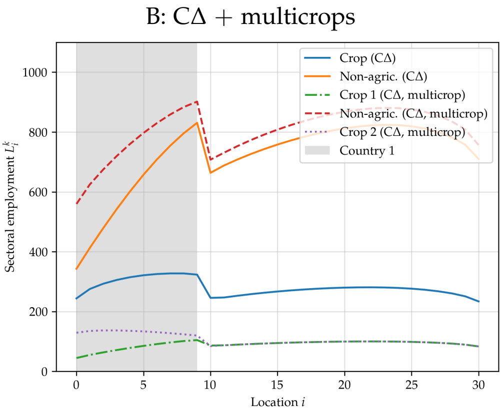


Model – Economy as a Line

back

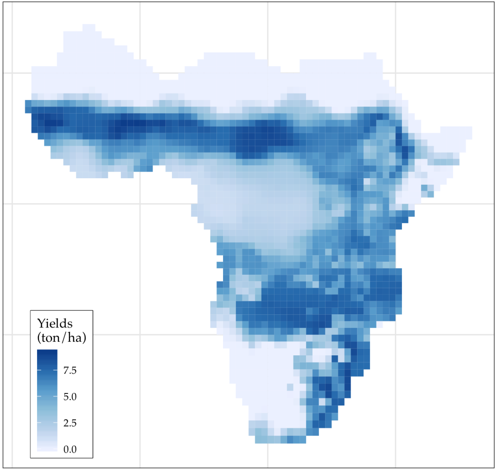
Figure 13: Role of bilateral migration frictions, trade frictions, country borders, crop choices, and non–homothetic preferences.



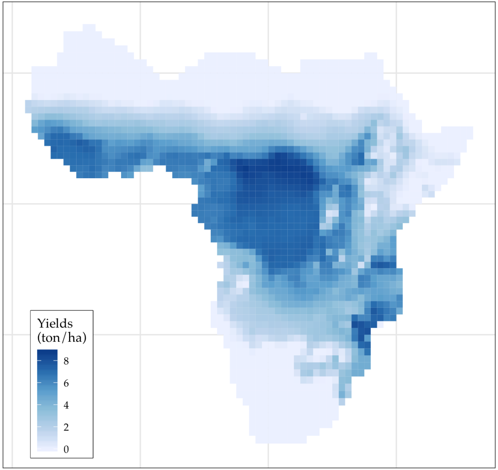


Drawing $\{A_i^k\}$ from FAO-GAEZ back

A: Sorghum potential yields (2000)



B: Rice potential yields (2000)



Quantification Algorithm back

Method: invert the spatial equilibrium to (numerically) solve for:

1. $\{A_i^K, b_i^k, \Omega_a, \Omega_K, \tau^F\}_{i,k}$ (technology-side; inner/outer loop)
   - Inner loop: conditional on τ^F, pins dows $A_i^K, b_i^k, \Omega_a, \Omega_K$ targetting (respectively) the spatial distribution of GDP, of sectoral output, and aggregate (relative) non-agric. expenditure Note: normalize $A_i^K = 1$ (cannot separate from b_i^k)
   - Outer loop: iterates over $\tau^F \in [1, ..., 3]$ to match aggregate bilateral (and observed) country trade flows

2. $\{u_i, m_c, \phi\}_{i,c}$ (location-choice-side; inner/outer loop)
   - Inner loop: conditional on ϕ, pins down u_i, m_c targetting (respectively) the spatial distribution of population and country-level migration inflows
   - Outer loop: iterates over $\phi \in [1, ..., 2]$ to match aggregate internal migration flows $\sim$ 50 million (Myers, 1997, 2002; Brown et al., 2007; Gemenne et al., 2022)

Quantification Algorithm: Production/Consumption back

Inner loop: I use the market clearing condition of the model to build the equations for nominal GDP, sectoral wage bills, and aggregate sectoral expenditure shares (and invert them to solve for the elements of interest):

$$w_j L_j = \sum_{i \in S} \sum_{k \neq K} \lambda_{ji}^k \Xi_i^k \mu_i^a w_i L_i + \sum_{i \in S} \lambda_{ji}^K \mu_i^K w_i L_i \tag{1}$$

$$X_j^k = \sum_{i \in S} \lambda_{ji}^k \Xi_i^k \mu_i^a w_i L_i \quad \forall k \neq K \tag{2}$$

$$X_j^K = \sum_{i \in S} \lambda_{ji}^K \mu_j^K w_i L_i \tag{3}$$

$$X_K / X_a = \frac{\sum_{j \in S} \sum_{i \in S} \lambda_{ji}^K \mu_i^K w_i L_i}{\sum_{k \neq K} \sum_{j \in S} \sum_{i \in S} \lambda_{ji}^k \Xi_i^k \mu_i^a w_i L_i}. \tag{4}$$

Quantification Algorithm: Production/Consumption back

$$A_j^K = \left[\frac{w_j L_j - \sum_{i \in S} \sum_{k \neq K} \lambda_{ji}^k \Xi_i^k \mu_i^a w_i L_i}{\sum_{i \in S} \left(w_i \tau_{ji} / b_j^K P_i^K \right)^{1-\eta_K} \mu_i^K w_i L_i} \right]^{\frac{1}{\eta_K - 1}} \tag{5}$$

$$b_j^k = \left[\frac{X_j^k}{\sum_{i \in S} \left(w_j \tau_{ji} / A_j^k P_i^k \right)^{1-\eta_k} \Xi_i^k \mu_j^a w_i L_i} \right]^{1/(\eta_k - 1)} \qquad \forall k \neq K \tag{6}$$

$$b_j^K = \left[\frac{X_j^K}{\sum_{i \in S} \left(w_j \tau_{ji} / A_j^K P_i^K \right)^{1-\eta_K} \mu_j^K w_i L_i} \right]^{1/(\eta_K - 1)} \tag{7}$$

$$\Omega_K / \Omega_a = \frac{X^K}{X^a} \times \frac{\sum_{k \neq K} \sum_{j \in S} \sum_{i \in S} \lambda_{ji}^k \Xi_i^k \left(P_i^a / P_i \right)^{1-\sigma} \left(w_i / P_i \right)^{\varepsilon_a - (1-\sigma)} w_i L_i}{\sum_{j \in S} \sum_{i \in S} \lambda_{ji}^K \left(P_i^K / P_i \right)^{1-\sigma} \left(w_i / P_i \right)^{\varepsilon_K - (1-\sigma)} w_i L_i}. \tag{8}$$

Quantification Algorithm: Location Choice back

Inner loop: I optimal location choice equation to calculate L_i and L_c. Then, I invert them to pin down amenities and country barriers as a function of the former:

$$m_c = \left[L_c^{-1} \times \sum_{j \in c} \sum_{i \notin c} \frac{\left(w_j / P_j\right)^{\theta} m_{ij}^{-\theta} u_j}{\sum_{s \in c(j)} \left(w_s / P_s\right)^{\theta} m_{is}^{-\theta} u_s + \sum_{s \notin c(j)} \left(w_s / P_s\right)^{\theta} m_{is}^{-\theta} m_{c(s)}^{-\theta} u_s} L_{i0} \right]^{1/\theta} \tag{9}$$

$$u_j = L_j \times \left[\sum_{i \in c(j)} \frac{\left(w_j / P_j\right)^{\theta} m_{ij}^{-\theta}}{\sum_{s \in c(j)} \left(w_s / P_s\right)^{\theta} m_{is}^{-\theta} u_s + \sum_{s \notin c(j)} \left(w_s / P_s\right)^{\theta} m_{is}^{-\theta} m_{c(s)}^{-\theta} u_s} L_{i0} + \right.$$

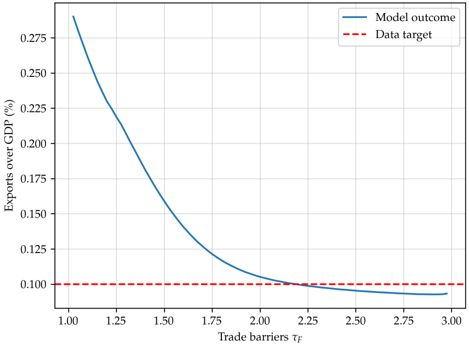
$$\left. \sum_{i \notin c(j)} \frac{\left(w_j / P_j\right)^{\theta} m_{ij}^{-\theta} m_{c(j)}^{-\theta}}{\sum_{s \in c(j)} \left(w_s / P_s\right)^{\theta} m_{is}^{-\theta} u_s + \sum_{s \notin c(j)} \left(w_s / P_s\right)^{\theta} m_{is}^{-\theta} m_{c(s)}^{-\theta} u_s} L_{i0} \right]^{-1} \tag{10}$$

Quantification Results: Outer Loops

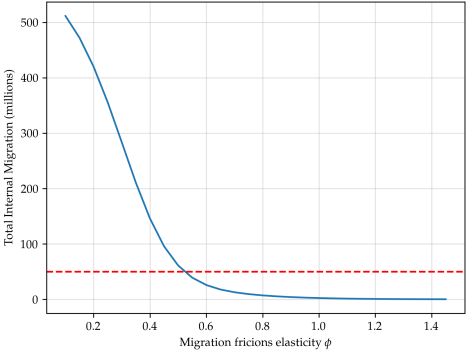
back

Figure 14: Results of the outer loops that solve for τ_{ij}^F and ϕ

A: Tariffs τ_{ij}^F



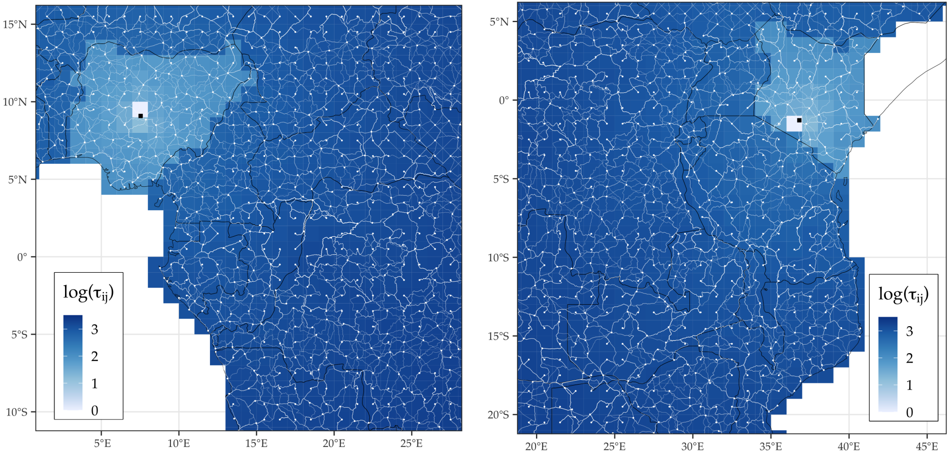
B: Migration frictions ϕ



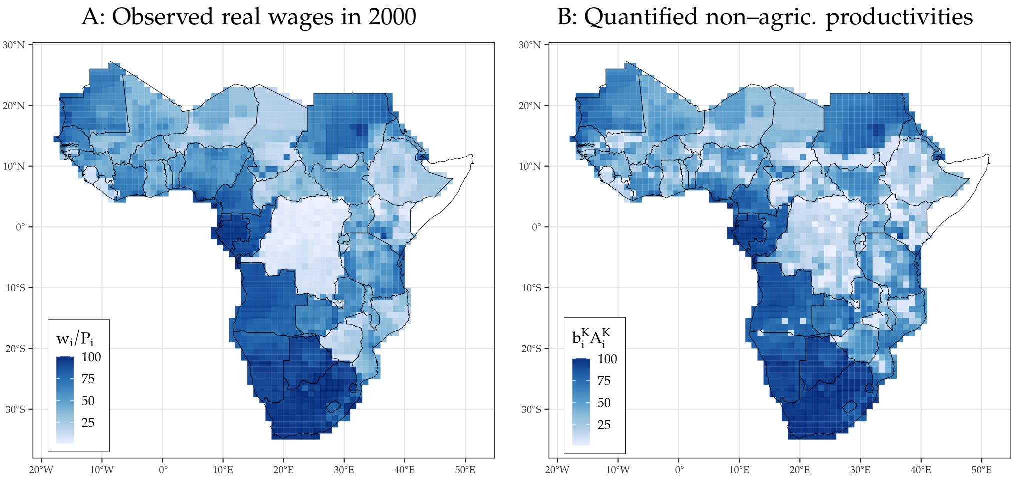
Notes: Panel A: Grid search over τ_{ij}^F (x-axis) and the resulting model-generated international trade flows (y-axis). The dashed red line stands for the target of the observed trade flows in the data. Panel B: analogous grid search over ϕ and the resulting model-generated internal migration flows.

Geographic trade friction: $\text{distance}(i,j)^{\delta}$, $\delta = 0.3$ (Moneke, 2020);
Trade costs: $\text{distance}(i,j)^{0.3} \times \tau_F$, $\tau_F = 2.175$ (quantified)

Figure 15: Quantified trade network for two subsamples of SSA. back



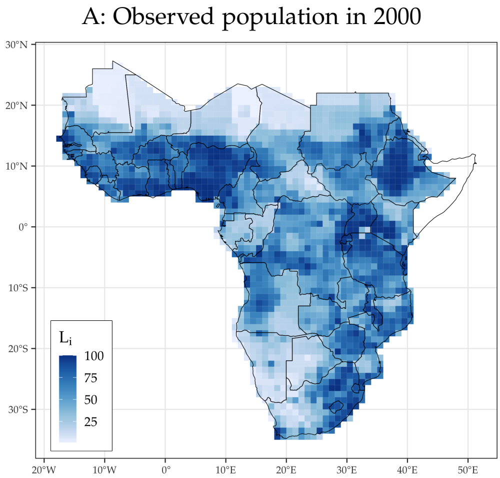
Quantification Results back

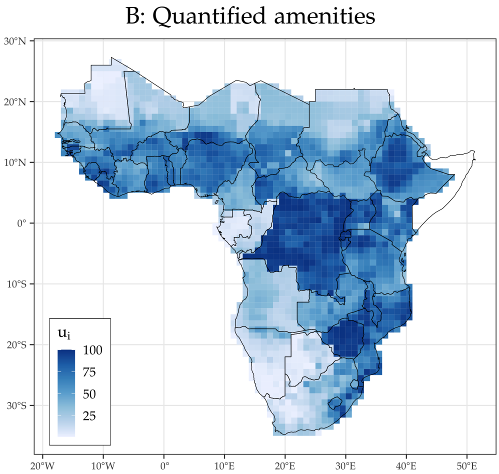


Notes: All results are shown in percentiles, where 1 (100) stands for the bottom (top) percentile of each sample. A and B document, respectively, the spatial distribution of the real wages in 2000 and the product of the quantified non–agricultural productivities productivity shifter of the non–agricultural sector.

Quantification Results

back

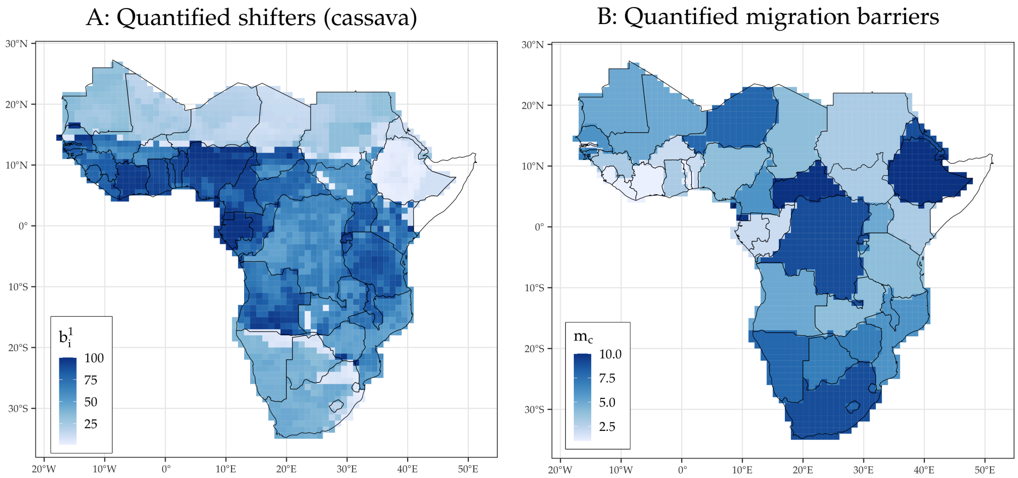




Notes: All results are shown in deciles, where 1 (100) stands for the bottom (top) decile of each sample. A and B document, respectively, the spatial distribution of observed population in 2000 and the quantified amenities .

Quantification Results

back

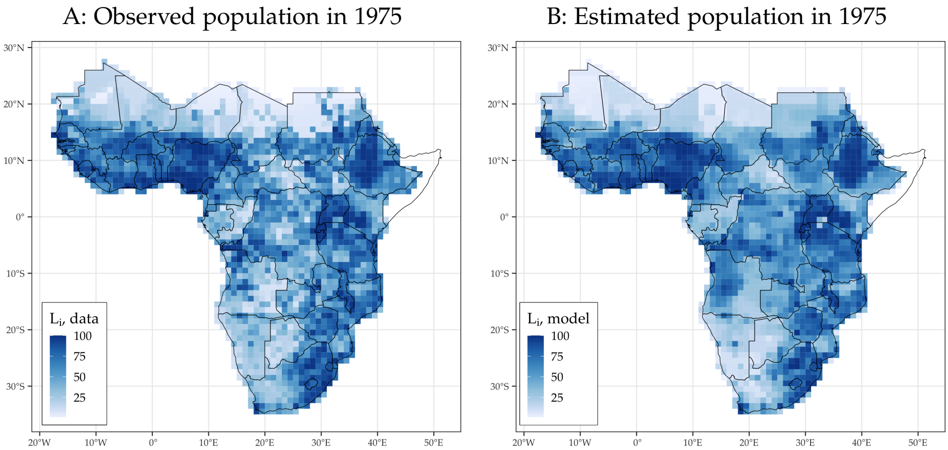


Notes: All results are shown in deciles, where 1 (100) stands for the bottom (top) decile of each sample. A and B document, respectively, the spatial distribution of the quantified cassava shifters and country migration barriers (the latter in deciles).

Validating the model: backcasting exercise using $\mathcal{L}$ and $\{A_i^k\}_{k \neq K}$ for 1975; check:

- model-implied population differences between 2000 and 1975
- extra: model-implied agricultural employment in 2000

Figure 16: Backcasting exercise: population distribution in 1975. back



Validating the model: backcasting exercise using $\mathcal{L}$ and $\{A_i^k\}_{k \neq K}$ for 1975; check:

- model-implied population differences between 2000 and 1975
- extra: model-implied agricultural employment in 2000.

Figure 17: Model goodness of fit: backcasting results for differences in population and labor shares in agriculture for 2000. back

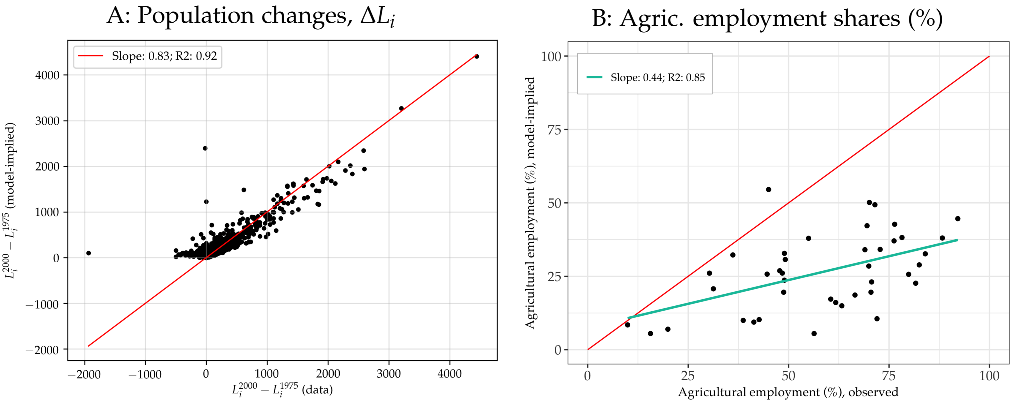
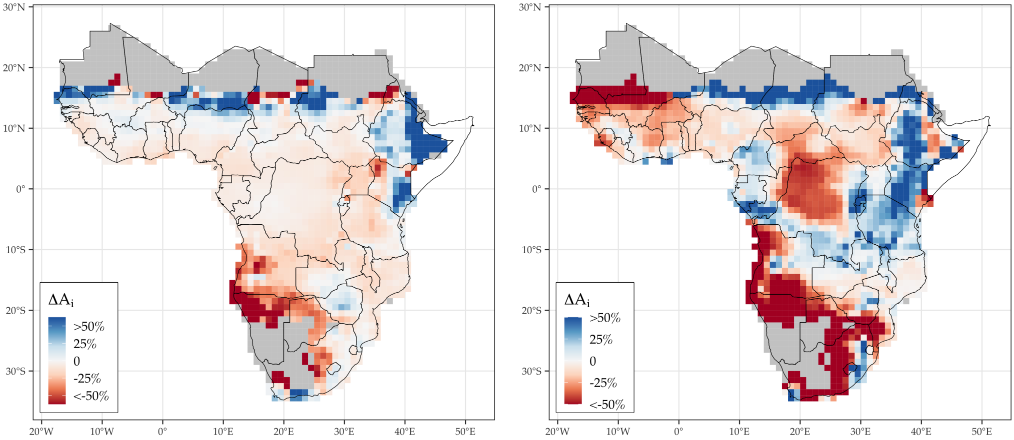


Figure 18: Change in agricultural suitabilities in SSA. back

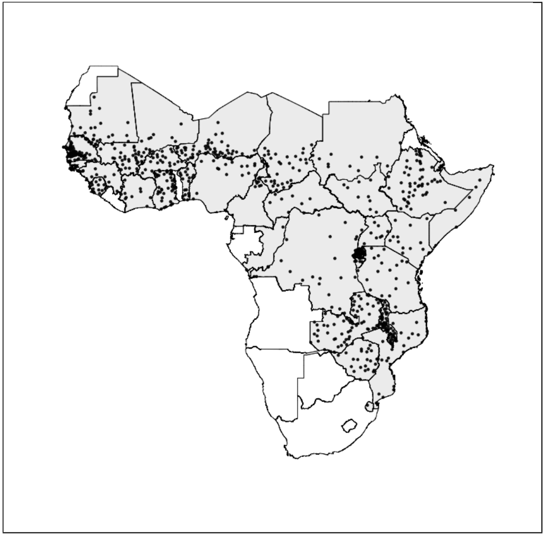
A: Change in average suitability to agriculture (1975–2000).

B: Change in average suitability to agriculture (2000–2080).



Newly Collected Price Data

back



Crop price data from WFP-VAM project (FAO):

- $\sim$ 40 countries and 900 markets (coordinates)
- 4 crops: maize, millet, sorghum, rice
- Covers 2000–2018

No origin-destination structure: use price dispersion to pin down δ (SMM)

Figure 19: Climate migration in SSA – baseline results for 2080. back

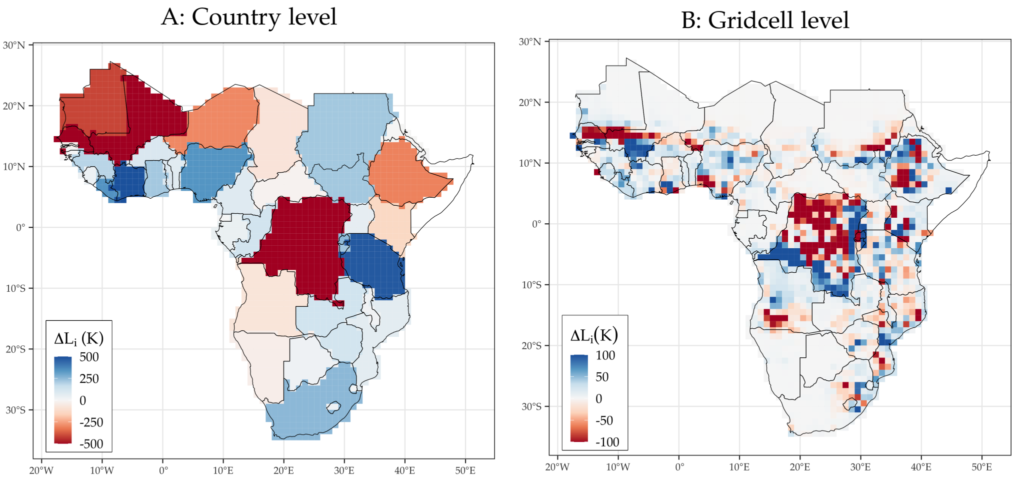


Figure 20: Climate change impact on non-agricultural employment. back

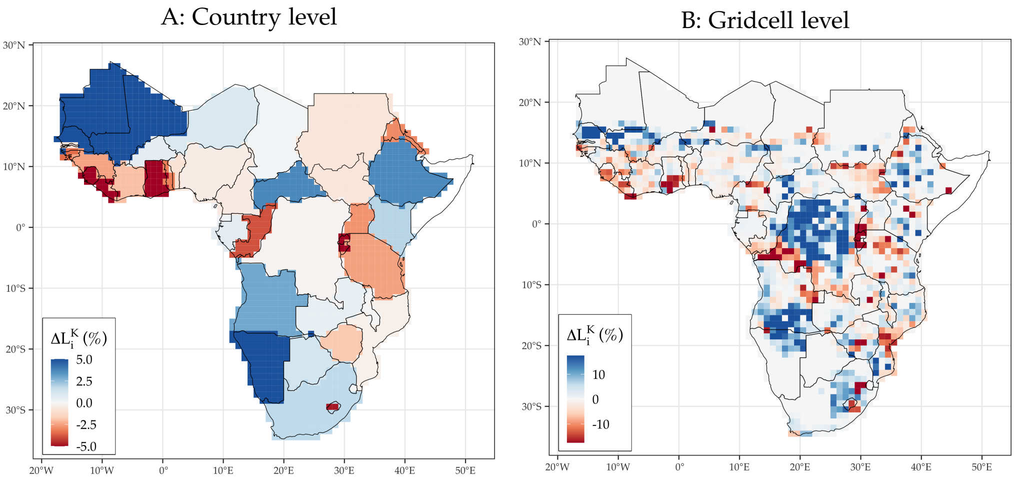


Figure 21: Climate change impact on real GDP per capita. back

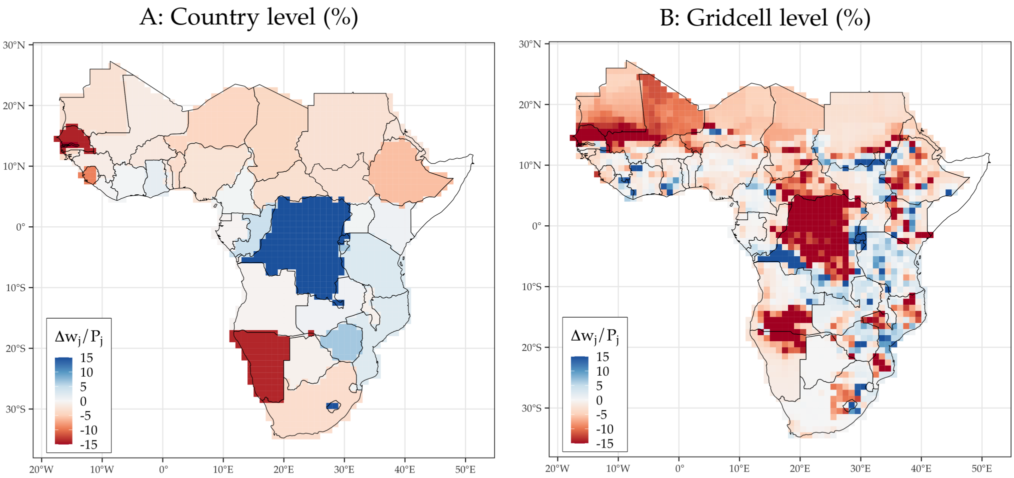
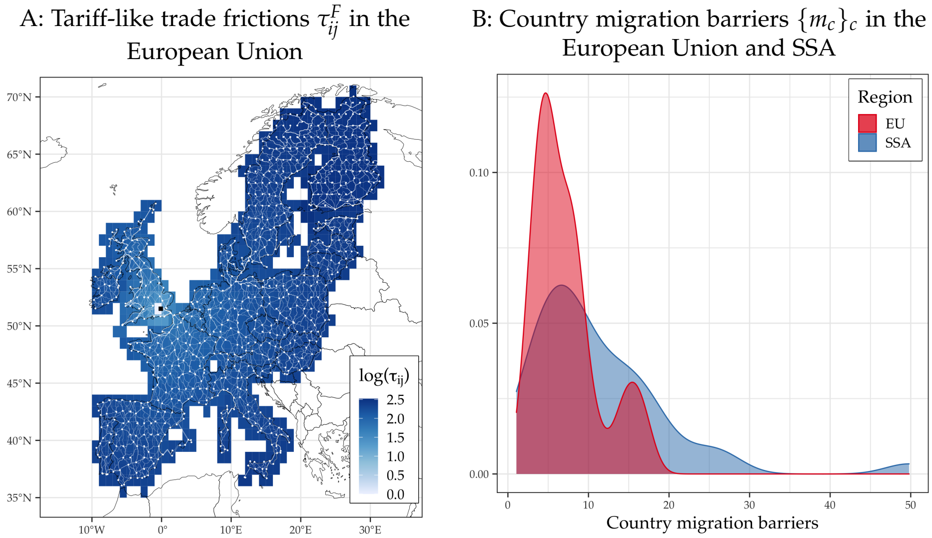


Figure 22: Estimated trade and migration frictions in the European Union back



Notes: Panel A presents trade frictions in the EU as done for SSA in Figure 15 (in this context, trade frictions are relative to Barcelona (Spain), represented by the black dot). Panel B plots the distribution of country migration barriers $\{m_c\}_c$ in SSA and the EU.

Robustness Checks and Additional Experiments

back

	(1) Climate migration (million individuals)	(2) Δ GDP per capita (%)	(3) Δ Non–agricultural employment (%)
Benchmark results	4.02	-1.18	-0.85
Panel A: Robustness to frictions			
Higher trade frictions	17.41	-7.05	-3.19
Lower trade frictions	2.01	0.10	0.50
Higher migration frictions	0.37	-1.78	-1.11
Lower migration frictions	24.47	1.06	-0.33
Panel B: Robustness to assumptions and CΔ scenario			
Homothetic preferences	3.52	4.38	-1.94
Endogenous fertility	2.52	2.72	1.77
RCP 4.5 scenario	1.34	1.86	1.28

Notes: Panel A presents the aggregate effect of climate change for different levels of trade and migration frictions, driven by the parameters δ and ϕ, respectively. Panel B presents the results of the benchmark simulation when (separately) assuming homothetic preferences between agriculture and non-agriculture, endogenous fertility, and a less severe climate change scenario.

Theory Appendix

Model: Technology and Market Structure back

- Representative firm, linear technology, labor as unique input;
- TFP: product of sector-specific efficiency (b) and natural advantage (A) shifter:

$$q_i^k = b_i^k \times A_i^k \times L_i^k \quad \forall i, j, k$$

- Free mobility of workers across sectors $\rightarrow w_i^k = w_i \ \forall i, k$;
- Production is consumed locally and/or shipped (traded), perfect competition and full information in trade;
- If $q_{ij}^k > 0$, prices equals marginal (production + shipping) costs:

$$p_{ij}^k = (w_i / b_i^k A_i^k) \times \tau_{ij},$$

Model: Preferences back

- Continuum of workers $\forall i$; worker v born in i choosing to live in j enjoys:

$$U_{ij}(v) = C_j \times \bar{m}_{ij}^{-1} \times \varepsilon_j(v);$$

- C_j: utility from consumption of goods in j;

- $\bar{m}_{ij} \equiv$ migration cost between i and j:
  - $\bar{m}_{ij} = m_{ij} = \text{dist}(i,j)^{\phi}$ if $j \in c(i)$,
  - $\bar{m}_{ij} = m_{ij} \times m_{c(j)}$ otherwise, and
  - $c(i)$: country where location i belongs to.

- $\varepsilon_j(v)$: v's taste for living in j, drawn i.i.d. from G_j.

Model: Consumption Choice back

- Consumption: choose sector k varieties from $\forall i \in S$

$$C_j^k = \left(\sum_{j \in \mathcal{S}} \left(q_{ij}^k \right)^{\frac{\eta_k - 1}{\eta_k}} \right)^{\frac{\eta_k}{\eta_k - 1}} ;$$

- q_{ji}^k: per capita consumption of j's varieties of good from sector k in i;

- Crops: $K - 1$ sectors aggregated up into a CES "a" composite

$$C_j^a = \left(\sum_{k \neq K} \left(C_j^k \right)^{\frac{\gamma - 1}{\gamma}} \right)^{\frac{\gamma}{\gamma - 1}}$$

Model: Consumption Choice back

- Budget constraint: $\sum_{j \in S} \sum_{k \in \mathcal{K}} p_{ji}^k q_{ji}^k = w_i$, max. w.r.t. $q_{ji}^k \rightarrow$

$$\lambda_{ji}^k = \frac{p_{ji}^k q_{ji}^k}{\sum_{j \in S} p_{ji}^k q_{ji}^k} = \left(p_{ji}^k / P_i^k\right)^{1-\eta_k},$$

$$P_i^k = \left(\sum_{j \in \mathcal{S}} \left(p_{ji}^k\right)^{1-\eta_k} \right)^{\frac{1}{1-\eta_k}}$$

- Analogous results for C_i^k's shares *within agriculture*:

$$\Xi_j^k = \left(P_j^k / P_j^a\right)^{1-\gamma},$$

$$P_j^a = \left(\sum_{k \neq K} \left(P_j^k\right)^{1-\gamma} \right)^{\frac{1}{1-\gamma}}.$$

Model: Consumption Choice back

- Non–/agriculture choice (K, a): non–homothetic CES as in Comin et al. (2021);

- C_j implicitly determined in

$$\sum_{k \in \{a,K\}} \left(\Omega^k\right)^{1/\sigma} \left(C_j\right)^{\epsilon_k/\sigma} \left(C_j^k\right)^{(\sigma-1)/\sigma} = 1$$

- $C_j \equiv w_j/P_j$ and $\mu_j^k \equiv P_j^k C_j^k / w_j$ such that:

$$\mu_j^k = \Omega^k \times \left(P_j^k/P_j\right)^{1-\sigma} \times \left(w_j/P_j\right)^{\epsilon_k-(1-\sigma)} \quad \forall k \in \{a,K\},$$

$$P_j = \left(\sum_{k \in \{a,K\}} \left(\Omega^k \left(P_j^k\right)^{1-\sigma}\right)^{\frac{1-\sigma}{\epsilon_k}} \times \left(\mu_j^k w_j^{1-\sigma}\right)^{\frac{\epsilon_k-(1-\sigma)}{\epsilon_k}}\right)^{\frac{1}{1-\sigma}}$$

Model: Consumption Choice

back

- Bilateral demand in j from sector k goods from i is X_{ji}^k:

$$X_{ij}^k = \lambda_{ij}^k \Xi_j^k \mu_i^k w_j L_j \quad \forall k \neq K, \text{ and}$$
$$X_{ij}^K = \lambda_{ij}^K \mu_j^K w_j L_j.$$

- Bilateral trade flows from i to j:

$$X_{ij} = \sum_{k \in \mathcal{K}} X_{ij}^k = \sum_{k \neq K} \lambda_{ij}^k \Xi_j^k \mu_i^k w_j L_j + \lambda_{ij}^K \mu_j^K w_j L_j.$$

Model: Location Choice back

- Choice of worker v born in i:

$$\max_j \quad U_{ij}(v) = (w_j/P_j) \times \bar{m}_{ij}^{-1} \times \varepsilon_j(v)$$

- Assumption: $\varepsilon_j \sim G_j(z) = e^{-z^{-\theta} \times u_j L_j^{-\alpha}}$
  - u_j: amenity level of location j;
  - θ: dispersion parameter, decreasing with workers' heterogeneity;
  - α: degree of "disutility" w.r.t. population density.

- Implication (Redding, 2016, among others):

$$\Pi_{ij} = \frac{(w_j/P_j)^{\theta} \bar{m}_{ij}^{-\theta} u_j L_j^{-\alpha}}{\sum_{s \in S} (w_s/P_s)^{\theta} \bar{m}_{is}^{-\theta} u_s L_s^{-\alpha}}$$

Model: Spatial Equilibrium back

Given a geography $\mathcal{G}(S) = \{\mathcal{L}, \mathcal{A}, \mathcal{U}, \mathcal{T}, \mathcal{M}\}$ and parameters $\{\theta, \alpha, \sigma, \gamma_a, \{\eta_k\}_k, \{b_i^k\}_{i,k}\}$, a spatial equilibrium is a vector of wages and labor allocations $\{w_j, L_j\}_{j \in S}$ such that

1. Prices solve firms' and workers consumption choice problems;
2. Labor allocations solve workers' location choice problem (labor market clearing);
3. Markets for goods clear; i.e. total GDP equals total sales and total expenditure:

$$w_j L_j = \sum_{i \in \mathcal{S}} X_{ij} = \sum_{i \in \mathcal{S}} X_{ji} \quad \forall j.$$

→ following system of $6 \times N$ equations and unkowns:

Model: Spatial Equilibrium back

$$w_jL_j = \sum_{i\in S}\sum_{k\neq K}\left(\frac{w_i\tau_{ij}}{b_i^kA_i^kP_j^k}\right)^{1-\eta_k}\left(\frac{P_j^k}{P_j^a}\right)^{1-\gamma_a}\Omega^a\left(\frac{P_j^a}{P_j}\right)^{1-\sigma}\left(\frac{w_j}{P_j}\right)^{\epsilon_a-(1-\sigma)}w_jL_j + $$

$$+\sum_{i\in S}\left(\frac{w_i\tau_{ij}}{b_i^KA_i^KP_j^K}\right)^{1-\eta_K}\Omega^K\left(\frac{P_j^K}{P_j}\right)^{1-\sigma}\left(\frac{w_j}{P_j}\right)^{\epsilon_K-(1-\sigma)}w_jL_j \tag{11}$$

$$P_j^k = \left(\sum_{i\in S}(w_i\tau_{ij}/b_i^kA_i^k)^{1-\sigma}\right)^{\frac{1}{1-\sigma}} \tag{12}$$

$$P_j^a = \left(\sum_{k\neq K}\left(P_j^k\right)^{1-\gamma_a}\right)^{\frac{1}{1-\gamma_a}} \tag{13}$$

$$P_j = \left(\sum_{k\in\{a,K\}}\left(\Omega^k\left(P_j^k\right)^{1-\sigma}\right)^{\frac{1-\sigma}{\varepsilon_k}}\left(\mu_j^kw_j^{1-\sigma}\right)^{\frac{\varepsilon_k-(1-\sigma)}{\varepsilon_k}}\right)^{\frac{1}{1-\sigma}} \tag{14}$$

$$\mu_j^k = \Omega^k\left(P_j^k/P_j\right)^{1-\sigma}\left(w_j/P_j\right)^{\epsilon_k-(1-\sigma)} \tag{15}$$

$$L_j = \sum_{i\in S}\frac{(w_j/P_j)^\theta\bar{m}_{ij}^{-\theta}u_jL_j^{-\alpha}}{\sum_s(w_s/P_s)^\theta\bar{m}_{is}^{-\theta}u_sL_s^{-\alpha}}\times L_i^0 \tag{16}$$