# 1 Question 1

**Why is location an important factor in the geography of finance?**

# 2 Question 2

**Are there circumstances in which agglomeration economies advantage might be overstated or perhaps even illusionary? In answering, provide at least one example.**

Agglomeration economies consists of processes that take advantage of economies of scale and network effects. Furthermore, these processes operate on two important levels, that of the individual firm and that of the region. However, it would be fallacious to believe that the net effect of agglomeration are always tangible or beneficial.

Economies of scale are frequently at the forefront of economics literature (Panzar and Willig 1977) with regards to firm-level competitiveness. It should be noted that when drawn schematically in an idealized model, the cost curve is u shaped: costs decrease as production increases and once optimal conditions are surpassed, costs increase. Financial commentatiors such Yves Smith have stipulated that despite the perennial promesses of synergy driven by the elimination of duplication of effort during bank mergers, the empirical evidence shows that the costs of managing large banks have diminishing returns when banks pass 25 billion dollars in yearly revenue (Smith 2010b).

As it currently stands, there is no formal model for the spreading of tacit knowledge in an economic cluster. While it might be a true that knowledge spreads via the "old boy's network" during time away from work and between employers, much of this literature pertains to the experience of information technology professionals located in California's Silicone Valley as well as the film industry in Hollywood. This popular phenomenon might not be true in different cultural backgrounds such as the Cambridge information technology cluster, where there is very little off-the-clock fraternization due to long work hours and the business climate is more socially restrained, and thus there is less comparison and thus transmission of best practises between employers.

On a regional scale, it is possible for agglomeration clusters to adversely affect local economic conditions. For example, Cecchetti and Kharroubi

(2012) finds that the size of a country's financial sector is correlated with GDP growth only up to a point, and that over-sized financial sectors are a drag on economic growth. This finding is explored in further detail in Cecchetti and Kharroubi (2015), and this working paper finds that large finance industries crowed-out other sectors of the economy, and this crowding out offers a mechanism for explaining the lower overall economic growth seen in the 2013 paper.

Similarly, agglomerations can loose their competitive edge with their competition when scarcity of skilled labour raises wages above the level of competitiveness. Furthermore, Huber (2012) finds that this phenomenon is especially hurtful to smaller companies in a cluster, for they have less resources to offer higher compensation when compared to larger firms.

Culture also plays a very large role with the spread of tacit knowledge,

# 3 Question 3

**This question has the following parts: (1) Describe, explain and discuss "Spatialization" based on Fabrikant, Skupin et al.; (2) Next, provide a hypothetical for now, but as good-as-you-can-make-it, example of Spatialization using some of the data for your study. Which of your data variables (pp. 14-15 in your Proposal) can be used? Pay attention to the X and Y axis, ensuring they make sense and have a clear label. State what these labels are; (3) What Distance Modeling could be applied to your example? (Cf. Chapter 6 on Distance Relationships by Chrisman); (4) Given 'Investment DistanceSheds' generated in (3) in non-spatial 'financial spaces', what Surface Modeling can be applied? (Cf. Chapter 8 on Spatial Analysis using Continuous Fields by Burrough et al); (5) What results can be expected from using this type of approach? Comment on this three-part 'Surface Analysis of Distance Models derived from Spatialization of Investment Data' approach.**

### 3.1

### 3.2

### 3.3

### 3.4

### 3.5

# References


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