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. These negative externalities do make logical sense, for without them the positive feedback loops would continue to infinity.

On the level of the firm, the costs of management do not necessarily scale with the size of the firm, leading to a point of diminishing returns. Some (Smith 2010b) have stipulated that with regards to financial services, the benefits of management with regards to size resemble that of an inverted u-shape. For example, many studies have shown that banks have diminishing returns on Capital when they pass 25 billion dollars in yearly revenue. (Smith 2010a)

On a regional scale, it is possible for agglomeration clusters to adversely affect local economic conditions. For example, Cecchetti and Kharroubi (2013) 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.

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.

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References

Cecchetti, S. G. and E. Kharroubi (2013). Reassessing the impact of finance on growth. `http://www.bis.org/publ/work381.pdf`.

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