

Agglomeration Economies

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Definition: Agglomeration economies are the association of productive activities in close proximity to one another, as in a major specialized industrial region or in a large town or city. Agglomeration typically gives rise to external economies associated with the collective use of the infrastructure of transportation, communication facilities and other services. Historically, there is a tendency for economic activity in general to concentrate in major agglomeration, the large market associated with metropolitan areas adding to the external cost advantages. Agglomeration also facilitates the rapid circulation of capital, commodities and labor. In some circumstances, decentralization within or beyond the metropolis may counter agglomerative tendencies (Johnston, et. al., 1994).

Due the diversity of phenomena associated with such agglomeration benefits and the general lack of understanding of agglomeration effects, the further distinctions are appropriate:

- Urbanization economies - agglomeration effects associated with the agglomeration of population and the resulting infrastructure facilities, labor pool and quality of life
- Industrialization economies - agglomeration effects resulting from the clustering of industrial activities giving rise to an industrial climate with positive and negative effects
- Localization economies - agglomeration effects which result from the agglomeration of specific activities which favor specialized facilities, labor pools, vocational training, political lobbies, etc (Krumme, 2002).

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