

Contents

	Page
1 INTRODUCTION	7
2 ELEMENTS OF A THEORETICAL MODEL	10
2.1 Adjustment processes: An informal overview	10
2.2 Production, price setting and labor demand	11
2.3 Migration	13
2.4 Wage formation	14
3 MODELING REGIONAL ADJUSTMENT PROCESSES	19
3.1 Participation and labor supply	19
3.2 Unemployment	22
3.3 The wage-price spiral and aggregate demand	23
3.4 Interregional capital flows and total factor productivity	25
3.5 The complete dynamic model	26
4 SOLUTION OF THE MODEL	27
4.1 Long-run equilibrium and hysteresis	27
4.2 A special case	29
5 CONCLUSIONS	32
 References	 34
 Appendix	
Appendix 1	A1
Appendix 2	A2
Appendix 3	A4
Appendix 4	A6