Regional Science and Urban Economics
Volume 29, Issue 5, September 1999, Pages 633-649

Russiaâ€™s internal border

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https://doi.org/10.1016/S0166-0462(99)00010-1

Abstract

In integrated economies, inter-city price differences can be explained largely by transportation costs. This is not the case in Russia. Here, we argue that this is due to an *internal border* that separates a region we denote as the Red Belt from the rest of Russia. Regions within the Red Belt exhibit high degrees of price dispersion and thus seem isolated. Moreover, these regions have been relatively slow to adopt economic reforms, and have suffered relatively low growth rates. The impact of the border on price dispersion is shown to be comparable to the impact of the USâ€“Canadian border.

Keywords

Price dispersion; Market integration

JEL classification

JEL classification

P22; R12

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