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Market Growth Causing Welfare Losses and Catastrophes: A General Monopolistic Competition Approach

This paper relies on our previous one, that developes the general-utility monopolistic competition model. It was found that under market growth the price for varieties can go up or down, depending upon Arrow-Pratt measure of concavity of the utility function, does it decrease or increase. Now we study various consequences of both situations. Importantly for international-trade and economic-geography studies, there can be welfare decrease under growing market, there are multiple and asymmetric equilibria, and discontinuity (catastrophic changes) in growth, unknown previously in monopolistic-competition.