Migration and the Spatial Distribution of Economic Activity

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In this paper we propose a model that endogenizes the mechanism by which an economy changes its productive structure. The channel that fosters growth is the increase in productivity in the urban sector that encourages agents from the rural sector to migrate. They do so in order to have access to better opportunities, however they need to accumulate human capital before migrating, which is costly, and this generates a selection of agents that migrate. We are able to characterize the equilibrium of the economy and test its quantitative implications concluding that opening the economy to new technologies together with a relative increase in the marginal return on urban specific human capital are sufficient to make countries start changing their productive structure.