

## LEAST COST THEORY:

### A. Weber's model

1. Least cost theory
2. Minimization of three critical expenses
  - a) Transportation costs— most critical
  - b) Labor costs
  - c) Agglomeration—when a substantial number of enterprises cluster in the same area
3. Some argued his theory did not account for variations in costs over time

### B. Factors of industrial location

1. Most, but not all economies are guided by market mechanism and relationships between supply and demand
  - a) Some evolved under state planning—example of the former Soviet Union
  - b) Discussion of capitalists who built great iron works in Europe and practice of moving iron ore to coal fields
2. Raw materials
  - a) Transportation costs affect industry location
  - b) Example of steel plants along the U.S. northeastern seaboard
  - c) Example of Japan, which has few raw materials
  - d) Example of colonial powers that controlled raw materials
  - e) Wealthy countries can keep prices lower for raw materials by finding other sources
3. Labor
  - a) Availability of cheap semiskilled labor has had an immense impact on regional
  - b) Example of Japan's development
  - c) Example of Taiwan and South Korea competing with Japan
  - d) Economic development on the Pacific Rim
  - e) Example of China with its huge labor force
  - f) Industry keeps shifting as new low-cost labor locations are found
  - g) Intense debate about the United States moving factories to Mexico
  - h) Cost of labor still looms large in location of industry
4. Transportation
  - a) Crucial to industrial location
  - b) Enables manufacturers to purchase raw materials from distant sources
  - c) Allows for distribution of finished products to dispersed populations
  - d) Location of industry also needs an alternative system of transportation
  - e) Container systems allow for bulk transport
  - f) For most goods, truck transport is cheapest over short distances
  - g) Railroads are cheapest over medium distances
  - h) Ships are cheapest over longest distances
5. Infrastructure
  - a) Includes all the different kinds of services offered by an area or city
  - b) Without needed services industries cannot succeed
  - c) Example of Southeastern China trying to industrialize without needed infrastructure
  - d) Vietnam has infrastructure problems that will not soon be overcome
  - e) In many Western cities excessive agglomeration is driving firms away from crowded decaying urban areas
6. Energy
  - a) Not as important as it once was
  - b) Can be brought from long distances over electrical lines
  - c) Industries needing exceptionally large amounts of energy still locate near sites of abundant available energy