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Faculty- Dr. Debjani Sarkar Ghose
Email-debjanipwc@gmail.com
Smith’s Model of Industrial Location
## Introduction

- His model was based on his studies of Steel Mill in Brazil.
- The theory explains the idea of spatial margin locations.
- Location inside the margin would result profit for the organization, while outside would result into loss.
- The theory is based on Spatial Margins of profitability of an industry, so it is known as ‘**Spatial Margins Theory**’.
The Theory

- Spatial Margins refers to a combination of both the production and revenue feasibility in a given linear market area.
- The theory incorporates the significant element of sub-optimal behaviour of locational choice in a given area.
- It did not put emphasis on least cost or profit maximisation location of rational economic man.
- Smith assumes dynamic interaction between production costs and revenue in space economy.
According to him, manufacturing costs vary in different situations and locations, so that the revenues and profits will vary within the feasible margins.

Smith attempted to explain his theory through setting a locational flexibility within a spatial range as delimited by intersection of space cost curve and space revenue curves.

This can be explained with the help of graphic presentation.
Spatial Margin of Profit

- In the figure x axis shows that the distance increasing from left to right and y axis denotes quantity of costs and revenues.
- Cost is indicated by red line and revenue by blue line. Place of profit is shown by orange line.
- At two points quantity of cost and revenue will be equal, while there is a point of profit maximization.
Line is drawn from the point of profit maximization towards x axis.

The point touching the axis axis is the ideal location while the circles drawn around that point is known as spatial range of locating one industry.

Theoretically, only one farm can be established at the point of maximum profit, while all others farms are required to have sub-optimal locations within the,argin of profit.

The farms established at the sub-optimal level can also make profits and run successfully which is shown by drawing circle on x axis.
Critical Appreciation

- Smith has successfully considered the dynamic interaction between production costs and received revenues in space economy.
- His spatial margin approach combines both the production as well as revenue side.
- But the theory is criticized on the ground that spatial costs and revenues for an industrial farm are not linear.
- The market demand factors are not uniform with distance due to consumer’s income, taste, substitution by new products and changing interaction of supply and demand side.
Thank You