

# **The Effects of Relocation of the Capital City in Korea – Based on Total Factor Productivity Analysis-**

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## **Abstract**

Recently, many suggest a negative effect of the relocation of the capital city in Korea, arguing that a decrease in population in the present capital region (Seoul) would result in income loss, since total factor productivity (TFP) in Seoul is higher than in any other province. However, this paper finds that the technical efficiency changes (TECs) in the Chungnam region has remarkably improved when we use a varying coefficients frontier production function model and decompose TFP into TECs and technological progress (TP). The labor productivity in the Chungnam area is also found to be higher than in the Seoul area. Thus, our study adds to the literature of the debates regarding whether the government should shift the capital city or not, in that one may say at least that there would be some positive effects.