

Endogenous Time Preference, Consumption Externalities, and Trade: Multiple Steady States and Indeterminacy

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Abstract

This paper presents a two-sector dynamic general equilibrium model in an autarkic economy and a small open economy, and considers the role of endogenous impatience and consumption externalities in a neoclassical growth model. In the case of socially increasing marginal impatience, there exists a unique and saddle-point stable steady state. By contrast, in the case of socially decreasing marginal impatience, there may exist multiple steady states and the dynamic equilibrium around the steady state with incomplete specialization may exhibit indeterminacy. The occurrence of the indeterminacy result requires a large degree of increasing time preference in average consumption and a socially decreasing marginal impatience which means that the slope of the supply curve for capital is negative in the long-run. In addition, the long-run effects of a terms-of-trade deterioration on the economy's comparative advantage and its relation to indeterminacy are examined.

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Keywords: Endogenous Time Preferences; Consumption Externalities; Multiple Steady States; Local Indeterminacy

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