

# MACROECONOMIC THEORY

A Textbook on Macroeconomic Knowledge and Analysis

---

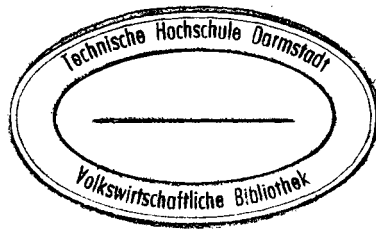
Edmond MALINVAUD

## Volume B: ECONOMIC GROWTH AND SHORT-TERM EQUILIBRIUM

Adaptation and revision of *Théorie Macroéconomique*, published in 1981–1982 by Dunod, Paris, and translated into English by Fenella Kirman.



1998



ELSEVIER

Amsterdam–Lausanne–New York–Oxford–Shannon–Singapore–Tokyo

Author Index (Volume 35A&B)	I-1
Subject Index (Volume 35A&B)	I-7

## VOLUME B: ECONOMIC GROWTH AND SHORT-TERM EQUILIBRIUM

<i>Introduction to the series</i>	v
<i>Preface</i>	vii
<i>Introduction</i>	xvii
<i>Chapter 5</i> <b>ECONOMIC GROWTH: NORMATIVE THEORY</b>	
Part 1 <b>Modelling Growth</b>	504
1.1      Feasible programmes	504
1.2      Discounting	509
Part 2 <b>Constant Investment Rates</b>	512
2.1      The rate of investment	512
2.2      Tendency to a steady growth	516
2.3      The “golden rule”	518
Part 3 <b>Optimal Growth</b>	523
3.1      An objective function	524
3.2      Calculating an optimal programme	527
3.3      The case of constant marginal utility	530
3.4      Unlimited optimal programmes	534
3.5      Transition to limit growth	538
3.6      Adaptation to shocks	541
3.7      The significance of optimal growth theory	544
Part 4 <b>The Use of Natural Resources</b>	547
4.1      Two types of natural resources	547
4.2      Sharing a cake between generations	549
4.3      Discounting and the price of natural reserves	554
4.4      Substitutability between natural resources and capital	557
Part 5 <b>The Discount Rate and Public Sector Investments</b>	561
5.1      Public and private investment	562
5.2      Public and private discount rates	564
5.3      Financial constraints and the social discount rate	568
Part 6 <b>Monetary Growth Theory and Financial Policy</b>	574
6.1      Theoretical goals	575

6.2	Growth and forced saving	577
6.3	The conceptual framework	579
6.4	Households' saving and liquidity	585
6.5	Full employment growth	589
6.6	Is inflation favourable to capital intensity?	593
6.7	Choosing a long-term financial policy	596
6.8	The move to the financial strategy	600
<i>Chapter 6</i>	<b>ECONOMIC GROWTH: POSITIVE THEORY</b>	
<b>Part 1</b>	<b>Building Theory from History</b>	<b>605</b>
1.1	Quantitative history	605
1.2	Objectives for a historical theory of economic growth	608
1.3	Reference to a few historical theses	610
<b>Part 2</b>	<b>Saving and Capital Accumulation</b>	<b>615</b>
2.1	The rate of saving	616
2.2	Capital accumulation	620
2.3	Chronic excess of saving according to Harrod and Domar	622
2.4	Growth and public debt	624
<b>Part 3</b>	<b>Income Distribution</b>	<b>631</b>
3.1	The subsistence wage	632
3.2	Overabundance or scarcity of labour	635
3.3	Substitutability of capital for labour	640
3.4	Rent of natural resources	644
<b>Part 4</b>	<b>Balanced Growth</b>	<b>649</b>
4.1	A harmonious accumulation of capital	650
4.2	Market implementation of optimal growth	657
4.3	Mutual adjustments of saving and investment	664
4.4	An optimistic vision of economic development	669
<b>Part 5</b>	<b>Classical Growth, Expectations and Stability</b>	<b>671</b>
5.1	The two-sector model and the possibility of cycles	673
5.2	Saving and overlapping generations	678
5.3	The temporary equilibrium and stationary equilibria	682
5.4	A potentially complex dynamics	687
5.5	Generalizations	694
<b>Part 6</b>	<b>Overaccumulation of Capital?</b>	<b>699</b>
6.1	Definition of overaccumulation	700
6.2	Overaccumulation due to too high saving rates	701

	6.3	Overaccumulation due to risk aversion	705
	6.4	Overaccumulation and actual market competition	708
	6.5	Any empirical proof of overaccumulation?	710
Part 7		Endogenous Accumulation of Knowledge and other External Economies	712
	7.1	A renewed interest in growth theory	712
	7.2	Strong external economies of scale	715
	7.3	Education and human capital	723
	7.4	Product innovation	729
Part 8		Evolutionism, Disequilibria and Cumulative Processes	736
	8.1	A disturbing gap	737
	8.2	Challenging features	738
	8.3	A cumulative technological progress	741
	8.4	Toward evolutionary theories	744
	8.5	Profitability and investment	746
	8.6	Stationary “Keynesian” states	749
	8.7	A self-sustaining growth?	754
Part 9		Progress in the Empirical Knowledge of Economic Growth	762
	9.1	Questions and data	763
	9.2	Growth accounting	766
	9.3	Investigations on the main factors of productivity changes	770
	9.4	The convergence hypothesis	775
	9.5	Roles of policies and institutions	778
	9.6	Economic history as against multiple regressions	784

## Chapter 7 SHORT-TERM EQUILIBRIUM

Part 1		A Framework for the Study of Macroeconomic Consistency Requirements	793
	1.1	The accounting framework	794
	1.2	Instruments of economic policy	796
	1.3	Household behaviour	800
	1.4	The behaviour of firms	805
	1.5	Three market equilibria	807
Part 2		Output Volume or Price Level	814
	2.1	Price or quantity adjustments	814
	2.2	Multiplier theory	821
	2.3	Aggregate demand and monetary equilibrium	829

	2.4	Financial factors of equilibrium	838
	2.5	Aggregate demand and the price level	841
Part 3		Early Conceptual and Empirical Clarifications	846
	3.1	The labour market and involuntary unemployment	847
	3.2	The classical dichotomy	858
	3.3	Is a full employment equilibrium always feasible?	864
	3.4	Evidence of incomplete market clearing and incomplete price flexibility	869
	3.5	Aggregate demand and “the supply side”	877
Part 4		Unemployment and Price Rigidity	879
	4.1	Price rigidity and “disequilibrium”	879
	4.2	Supply and demand	883
	4.3	Keynesian unemployment	891
	4.4	Repressed inflation	893
	4.5	Classical unemployment	895
	4.6	Domains of the various regimes	897
	4.7	Unemployment and equilibrium on the goods market	901
	4.8	Many markets	905
Part 5		Looking Beyond the Short Term	911
	5.1	Dynamics of the temporary equilibrium	912
	5.2	Asset building or depletion	914
	5.3	Are spontaneous reactions of prices and wages stabilizing?	921
	5.4	A Keynesian depression	923
	5.5	A classical depression?	928
	5.6	A medium-term equilibrium	935
Part 6		Search for New Models	951
	6.1	Unemployment as an automatic social regulator	952
	6.2	Imperfect competition on markets for goods	957
	6.3	Coordination failures	966
Part 7		Changing Views about Economic Policies	972
	7.1	The challenging test of some fiscal contractions	974
	7.2	The role of bank loans in monetary policy	977
		Author Index (Volume 35A&B)	I-1
		Subject Index (Volume 35A&B)	I-7