FRONTIERS OF ECONOMICS AND GLOBALIZATION VOLUME 11

ECONOMIC GROWTH AND DEVELOPMENT

Edited by

Olivier de La Grandville Department of Management Science and Engineering, Stanford University, Stanford CA



United Kingdom – North America – Japan India – Malaysia – China

CONTENTS

	BOUT THE SERIES: FRONTIERS OF ECONOMICS ND GLOBALIZATION	v
A	BOUT THE EDITOR	vii
L	IST OF CONTRIBUTORS	ix
F	DREWORD	xxiii
C	HAPTER 1 HOW GROWTH CAN UNDERMINE GROWTH: THREE EXAMPLES Kenneth J. Arrow	1
1	The Impact of Medical Progress	2
2	Technological Progress in Weapons	4
3	The Anthropocene Age	5
C]	HAPTER 2 COMMODITY PRICE VOLATILITY, DEMOCRACY, AND ECONOMIC GROWTH Rabah Arezki and Thorvaldur Gylfason	9
	Introduction	9
2	Data	13
	2.1 Nonresource GDP (NRGDP)	13
	2.2 Commodity price index and volatility	13
	2.3 Democracy	14
3	Empirical results	14
	3.1 Estimation strategy	14
	3.2 Economic growth	15
	3.3 Saving	18
	Robustness checks	21
5	Summary and conclusion	22
	Acknowledgments	22
	References	23

Contents

С	HAPTER 3	GROWTH, COLONIZATION, AND INSTITUTIONAL DEVELOPMENT: IN AND OUT OF AFRICA Graziella Bertocchi	25
1	Introduction	n	25
		tory, and institutions	26
	Growth in A		27
	-	colonization	29 32
	State fragili Slavery	ty	32
	Conclusion		36
	Acknowledg	gments	37
	References		38
C	HAPTER 4	ON THE RELATION BETWEEN INVESTMENT AND ECONOMIC GROWTH: NEW CROSS-COUNTRY EMPIRICAL EVIDENCE Michael Binder and Susanne Bröck	43
1	Introduction	1	44
2	The PVAR/	PVECM framework	47
3		under cross-sectional independence	50
		an group estimator	51
		oled mean group estimator	52
		under cross-sectional dependence	53
С	Hypothesis 5.1 Unit roo		56 56
		r cross-sectional independence	50
		r cointegration	58
		r long-run parameter homogeneity	60
		r weak exogeneity/long-run causality	61
		responses and persistence profiles	62
6		ship between investment in physical capital	
	and output:	Empirical evidence	63
	6.1 Data		63
		ing Blomström, Lipsey, and Zejan	63
-		on and hypothesis testing results	66
7	Conclusion		83
	Acknowledg	iments	84
	References		84

xiv

	Contents	xv
C	HAPTER 5 VINTAGE CAPITAL GROWTH THEORY: THREE BREAKTHROUGHS Raouf Boucekkine, David de la Croix and Omar Licandro	87
1	Introduction	87
	Vintage capital models: seminal theory	89
	2.1 The Johansen vintage capital model	89
	2.2 The Solow vintage capital model	91
	2.3 The vintage capital model with fixed factor proportions	93
3	The embodiment debate and implications for empirical growth:	
	the accounting breakthrough	94
	3.1 The embodiment controversy: Solow (with the help	
	of Gordon) strikes back	94
	3.2 Growth accounting under embodiment	96
4	Optimal vintage capital growth models: The optimal control	
	breakthrough	97
	4.1 The mathematical peculiarity of vintage capital models	97
	4.2 Vintage capital optimal growth models	98
	4.3 Vintage capital with endogenous growth	100
5	Vintage human capital: the third breakthrough	103
	5.1 Vintage human capital and technology diffusion	103
	5.2 Vintage human capital and inequality	105
,	5.3 Demographic vintage human capital models	107
0	Conclusion	112
	Acknowledgment	112
	References	113
C	HAPTER 6 ADAPTIVE ECONOMIZING, CREATIVITY, AND MULTIPLE-PHASE EVOLUTION Richard H. Day	117
1	Adaptive economizing	118
	Cooperation, enterprise, and markets	123
	Imagination, creativity, and imitation	127
	Multiple-phase evolution	128
	Appendix A	129
	A.1 Multiple-phase dynamics	129
	A.2 An abstract adaptive society	132
	A.3 Viability	133
	A.4 Multiple-phase dynamics	136
	A.5 Endogenous priorities	137
	A.6 Discussion	137
	References	138

xν	ri <i>Contents</i>	
C	HAPTER 7 AN EXPLICIT NONSTATIONARY STOCHASTIC GROWTH MODEL Robert Feicht and Wolfgang Stummer	141
1	Introduction	141
2	The economy model	143
3	Exploratory simulation analyses	149
	Acknowledgments	191
	Appendices	191
	A.1 Derivation of the capital stock dynamics	191
	A.2 Distributions	193
	A.3 Consumption (5) within a Ramsey-type setup	196
	References	200
C	HAPTER 8 GROWTH VOLATILITY AND THE STRUCTURE OF THE ECONOMY Davide Fiaschi and Andrea Mario Lavezzi	203
1	Introduction	203
2	The estimation of growth volatility	206
	2.1 The methodology	206
	2.2 A look at the estimated growth volatilities	210
3	Empirical analysis	212
	3.1 The dataset	214
	3.2 GAM estimation	224
4	Concluding remarks	241
	Acknowledgment	242
	Appendix	242
	References	244
C	HAPTER 9 STABILITY OF GROWTH MODELS WITH CENERALIZED LAC STRUCTURES	247

	GENERALIZED LAG STRUCTURES Donald A.R. George	247
1	Introduction	247
2	Stability, asymptotic stability, and convergence	248
3	Economic growth with a variable production lag	250
4	Economic growth with an accelerator investment function	255
5	Time-varying parameters	257
6	Conclusions	258
	Acknowledgments	259
	References	259

Contents	xvii
CHAPTER 10 ON THE TRACK OF THE WORLD'S ECONOMIC CENTER OF GRAVITY Jean-Marie Grether and Nicole Andréa Mathys	261
1 Introduction	261
2 Measuring the world's economic center of gravity	262
2.1 Mean direction and mean concentration on a sphere	262
2.2 From land to population and from population to	
production	264
3 Tracking the centers of gravity	265
3.1 Moving eastward: mean direction trends 1950-2008	266
3.2 Mean concentration decomposition 1950–2008	270
3.3 Education and R&D	274
4 Conclusion	276
Acknowledgments	277
Appendix A	278
Appendix B	280
B.1 How is a center of gravity measured?	280
B.2 Location on a sphere: polar and Cartesian coordinates	281
B.3 Descriptive statistics on a sphere	282
B.4 Specific cases	284
References	287
CHAPTER 11 HOMOTHETIC MULTISECTOR	
GROWTH MODELS	289
Bjarne S. Jensen and Ulla Lehmijoki	
1 Introduction	289

•		-0,
2	Structure of homothetic multisector economies	292
	2.1 CES sector technologies and cost functions	292
	2.2 CES preferences and consumer demands	294
	2.3 Factor endowments, allocation fractions,	
	and GDP	296
3	Walrasian equilibrium of two-factor-multisector economies	298
4	Dynamics and evolution of homothetic multisector	
	economies	300
5	Solving the multisector growth $-(2 \times 10) - model$	302
	5.1 CES parameter sets of $U(Y_2, \ldots, Y_{10})$ and $F_i(L_i, K_i)$	302
	5.2 MSG time paths of the CES 10-sector growth model	303
6	Final comments	314
	Acknowledgment	314
	Appendix: CES isoquant map	315
	References	315

Contents

CHAPTER 12		MEDIUM-TERM GROWTH: THE ROLE OF POLICIES AND INSTITUTIONS Michał Jerzmanowski and David Cuberes	319
1	Introduction		320
2	Lack of grov	vth persistence	324
3	Growth trans	sitions	326
4	Growth regin	nes	337
		tutions, and regime switching	343
6	Conclusions		360
	References		362
C	HAPTER 13	MODELING PARAMETER HETEROGENEITY IN CROSS-COUNTRY REGRESSION MODELS Andros Kourtellos	367
1	Introduction		367
2	Econometric	methodology	370
3	Data		371
4	Empirical res		373
	4.1 Uncondit		373
_		nal models on population growth and investments	376
5		nd directions for future research	381
	Acknowledge	nents	382 383
	Appendix References		385
C		HOW MUCH SHOULD A NATION SAVE?	200
		A NEW ANSWER Olivier de La Grandville	389
1	A model of c	ptimal growth	391
	-	uction process	391
	-	an optimality criterion	392
~	-	rises of competitive equilibrium	392
2		with paths for the economy	394
	2.1 Case $\sigma \leq$		395
3	2.2 Case $\sigma >$	s and extensions $p > 0$	410 410
	Conclusion	ה מות התכווסוטוס	410
т	Acknowledgn	nents	414
	References		414

xviii

		Contents	xix
CHAPTER 15		AGGREGATION, THE SKILL PREMIUM, AND THE TWO-LEVEL PRODUCTION FUNCTION Miguel A. León-Ledesma, Peter McAdam and Almo Willman	417
2 3 4	Data Estimation re 4.1 Overview 4.2 Discussio Conclusions Acknowledgr	n	417 420 422 426 426 431 432 433 434 435
C]	HAPTER 16	FACTOR SUBSTITUTION AND BIASED TECHNOLOGY WITH BALANCED GROWTH Miguel A. León-Ledesma and Mathan Satchi	437
2 3 4	Introduction Related litera CES and the Dynamics an Conclusions Acknowledgr References	choice of production technique d calibration	437 439 442 445 451 452 452
C	HAPTER 17	ILLEGAL IMMIGRATION, FACTOR SUBSTITUTION, AND ECONOMIC GROWTH Theodore Palivos, Jianpo Xue and Chong K. Yip	455
	2.1 The mode2.2 Steady-state2.3 Changes	llegal immigration with one type of domestic labor el ate equilibrium in wealth, income, and consumption nal dynamics	456 457 457 461 462 465
4	The general f 3.1 The comp 3.2 Steady-sta	ramework parative static results of factor substitution ate analysis ion of wealth	466 468 471 473 478

٠

	Acknowledgment Appendix. Normalization procedure of the two-level	480
	nested CES production function	480
	References	481
C	HAPTER 18 INVESTMENT, TECHNICAL PROGRESS, AND THE CONSEQUENCES OF THE GLOBAL ECONOMIC CRISIS John Pawley and Ernst Juerg Weber	483
1	Decomposition of forecast-error-variances	486
	Impulse responses	489
3	Conclusion	490
	Acknowledgments	491
	References	491
C	HAPTER 19 MARKET POWER, GROWTH, AND	
	UNEMPLOYMENT	493
	Pietro F. Peretto	
1	Introduction	493
2	The model	495
3	Wages, prices, and R&D at the firm level	499
4	General equilibrium	505
5	Implications for the analysis of reforms	510
	5.1 Labor market reforms	511
	5.2 Product market reforms	514
6	Conclusion	518
	Acknowledgments	519
	Appendices	519
	A.1 The bargaining problem	519
	A.2 The reduced-form revenue function	520
	A.3 Proof of Proposition 1	520
	A.4 A condition for \tilde{m} decreasing in N	523
	References	524
Cl	HAPTER 20 OPTIMAL ABATEMENT INVESTMENT AND ENVIRONMENTAL POLICIES UNDER POLLUTION UNCERTAINTY Enrico Saltari and Giuseppe Travaglini	527
	Introduction	527
2	The model	529
	2.1 The value of the firm	531
2	2.2 Investment, rents, and the value of firm	532 534
3	Environmental policy 3.1 Taxes	534 534
	J.1 1 4ADS	554

	3.2 Subsidies	535
4	Conclusion	536
	Appendix	538
	References	540
С	HAPTER 21 ROBOTICS AND GROWTH Erling Steigum	543
1	Introduction	543
2	The model	544
3	The special case of perfect substitutes	546
	3.1 Optimal growth	547
	3.2 The optimal saving rate is increasing when $n > 0$	549
	3.3 Tax and subsidy policy	549
	3.4 How fast does the rate of growth approach	
	the asymptotic growth rate?	550
	3.5 An exogenous gross investment share	551
4	The case of imperfect substitution between robots and labor	552
	4.1 A steady state exists $(r_{\mu} < \rho)$	552
	4.2 Endogenous growth $(r_{\mu} > \rho)$	553
	4.3 The special case $r_{\mu} = \rho$	553
5	Discussion	553
	Acknowledgment	554
	Appendix	554
	References	555
C	HAPTER 22 GOVERNMENT AND GROWTH:	
	FRIEND OR FOE?	557
	Milad Zarin-Nejadan	
1	Introduction	558
2	Long-term public sector growth	558
	2.1 Measuring the size of the public sector	559
	2.2 Long-term growth of the State: stylized facts	560
3	Factors behind public sector growth	562
	3.1 Economic explanations	562
	3.2 Explanations from the public-choice literature	564
4	Government's impact on growth	565
	4.1 Growth-theoretical underpinnings	565
	4.2 Impact of public expenditure on growth	566
	4.3 Impact of public revenues on growth	569
~	4.4 Government's own inefficiencies	573
	Evidence from empirical studies	573
6	Conclusion	576
	Acknowledgments	578
	References	578

Contents

xxi