Status and Multiple Growth Regimes

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Abstract

In order to explain multiple growth regimes, one of the working hypotheses is based on
initial conditions. Using a standard optimal growth with the status effect represented by
wealth a la Friedman (1953), this paper obtains multiple growth regimes based on initial
conditions without reliance on other assumptions such as nonlinearities of production or
consumption functions and heterogeneous agents/savings behavior. With the status effect, the
resulting equilibrium distribution is characterized by a group with a lower level of income and
another group with a higher level of income. Globally, a sufficiently strong monetary policy
may be an instrument in order for an economy in poverty traps to take off and become wealthy in
the long run. Locally, our model sheds light on the relationship between money/inflation and
capital in the long run that, given general cash-in-advance constraints on investment relative to
consumption, is determined by the curvature of the utilities of wealth and consumption.

Keywords: one-sector growth model, wealth effect, CIA constraint, takeoff.

JEL classification: E13, E52, O11.

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