Economic Growth Exercises

15.03.2011 Christian Groth

Corrections for Problem VI.1

VI.1

Line 1 should read:

Consider a closed market economy with constant population, L utility maximizing households, and M

Question b) should read:

b) Show that in equilibrium

$$\begin{aligned} r &= \alpha\bar{A} - \delta, \quad \text{where} \quad k \equiv K/L \quad \text{and} \quad \bar{A} \equiv A^{\frac{1}{\alpha}}(\bar{g}L)^{\frac{1-\alpha}{\alpha}}, \\ Y &= \sum_i Y_i = \sum_i y_i L_i = y\sum_i L_i = yL = Ak^\alpha G^{1-\alpha}L = A^{1/\alpha}(\bar{g}L)^{(1-\alpha)/\alpha}kL \equiv \bar{A}K. \end{aligned}$$

The *hint* to question g) should read:

g) .... *Hint:* by a procedure analogue to that in question b) it can be shown that in equilibrium the aggregate production now is

$$Y = \left(A\bar{g}^{\lambda(1-\alpha)}K^\alpha L^{1-\alpha}\right)^{\frac{1}{1-\lambda(1-\alpha)}}.$$

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