CONTENTS

ABOUT THE SERIES: FRONTIERS OF ECONOMICS AND GLOBALIZATION v

ABOUT THE EDITOR vii

LIST OF CONTRIBUTORS ix

FOREWORD xxiii

CHAPTER 1 HOW GROWTH CAN UNDERMINE GROWTH: THREE EXAMPLES 1

Kenneth J. Arrow

1 The Impact of Medical Progress 2
2 Technological Progress in Weapons 4
3 The Anthropocene Age 5

CHAPTER 2 COMMODITY PRICE VOLATILITY, DEMOCRACY, AND ECONOMIC GROWTH 9

Rabah Arezki and Thorvaldur Gylfason

1 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
4 Robustness checks 21
5 Summary and conclusion 22
  Acknowledgments 22
  References 23
CHAPTER 3  GROWTH, COLONIZATION, AND INSTITUTIONAL DEVELOPMENT: IN AND OUT OF AFRICA

Graziella Bertocchi

1 Introduction 25
2 Growth, history, and institutions 26
3 Growth in Africa 27
4 History and colonization 29
5 State fragility 32
6 Slavery 35
7 Conclusion 36
Acknowledgments 37
References 38

CHAPTER 4  ON THE RELATION BETWEEN INVESTMENT AND ECONOMIC GROWTH: NEW CROSS-COUNTRY EMPIRICAL EVIDENCE

Michael Binder and Susanne Bröck

1 Introduction 44
2 The PVAR/PVECM framework 47
3 Estimation under cross-sectional independence 50
  3.1 The mean group estimator 51
  3.2 The pooled mean group estimator 52
4 Estimation under cross-sectional dependence 53
5 Hypothesis testing 56
  5.1 Unit root tests 56
  5.2 Tests for cross-sectional independence 57
  5.3 Tests for cointegration 58
  5.4 Tests for long-run parameter homogeneity 60
  5.5 Tests for weak exogeneity/long-run causality 61
  5.6 Impulse responses and persistence profiles 62
6 The relationship between investment in physical capital and output: Empirical evidence 63
  6.1 Data 63
  6.2 Replicating Blomström, Lipsey, and Zejan 63
  6.3 Estimation and hypothesis testing results 66
7 Conclusion 83
Acknowledgments 84
References 84
CHAPTER 5 VINTAGE CAPITAL GROWTH THEORY: THREE BREAKTHROUGHS
Raouf Boucekkine, David de la Croix and Omar Licandro

1 Introduction 87
2 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
6 Conclusion 112
Acknowledgment 112
References 113

CHAPTER 6 ADAPTIVE ECONOMIZING, CREATIVITY, AND MULTIPLE-PHASE EVOLUTION 117
Richard H. Day

1 Adaptive economizing 118
2 Cooperation, enterprise, and markets 123
3 Imagination, creativity, and imitation 127
4 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
CHAPTER 7  AN EXPLICIT NONSTATIONARY
STOCHASTIC GROWTH MODEL  141
Robert Feicht and Wolfgang Stummer

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

CHAPTER 8  GROWTH VOLATILITY AND THE
STRUCTURE OF THE ECONOMY  203
Davide Fiaschi and Andrea Mario Lavezzi

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

CHAPTER 9  STABILITY OF GROWTH MODELS WITH
GENERALIZED LAG STRUCTURES  247
Donald A.R. George

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
CHAPTER 10  ON THE TRACK OF THE WORLD'S ECONOMIC CENTER OF GRAVITY
Jean-Marie Grether and Nicole Andréa Mathys

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
Bjarne S. Jensen and Ulla Lehmijoki

1 Introduction 289
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 × 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
CHAPTER 12  MEDIUM-TERM GROWTH: THE ROLE OF POLICIES AND INSTITUTIONS  
Michal Jerzmanowski and David Cuberes  

1 Introduction  
2 Lack of growth persistence  
3 Growth transitions  
4 Growth regimes  
5 Policies, institutions, and regime switching  
6 Conclusions  
   References  

CHAPTER 13  MODELING PARAMETER HETEROGENEITY IN CROSS-COUNTRY REGRESSION MODELS  
Andros Kourtellos  

1 Introduction  
2 Econometric methodology  
3 Data  
4 Empirical results  
   4.1 Unconditional models  
   4.2 Conditional models on population growth and investments  
5 Conclusion and directions for future research  
   Acknowledgments  
   Appendix  
   References  

CHAPTER 14  HOW MUCH SHOULD A NATION SAVE?  
A NEW ANSWER  
Olivier de La Grandville  

1 A model of optimal growth  
   1.1 The production process  
   1.2 Choosing an optimality criterion  
   1.3 The surprises of competitive equilibrium  
2 Optimal growth paths for the economy  
   2.1 Case \( \sigma \leq 1 \) (\( p \leq 0 \))  
   2.2 Case \( \sigma > 1, p > 0 \)  
3 Qualifications and extensions  
4 Conclusion  
   Acknowledgments  
   References
CHAPTER 15 AGGREGATION, THE SKILL PREMIUM, AND THE TWO-LEVEL PRODUCTION FUNCTION
Miguel A. León-Ledesma, Peter McAdam and Alpo Willman

1 Introduction 417
2 The normalized two-step four-factor CES production function 420
3 Data 422
4 Estimation results 426
  4.1 Overview 426
  4.2 Discussion 431
5 Conclusions 432
Acknowledgment 433
Appendix Normalization: A primer 434
References 435

CHAPTER 16 FACTOR SUBSTITUTION AND BIASED TECHNOLOGY WITH BALANCED GROWTH
Miguel A. León-Ledesma and Mathan Satchi

1 Introduction 437
2 Related literature 439
3 CES and the choice of production technique 442
4 Dynamics and calibration 445
5 Conclusions 451
Acknowledgment 452
References 452

CHAPTER 17 ILLEGAL IMMIGRATION, FACTOR SUBSTITUTION, AND ECONOMIC GROWTH
Theodore Palivos, Jianpo Xue and Chong K. Yip

1 Introduction 456
2 A model of illegal immigration with one type of domestic labor 457
  2.1 The model 457
  2.2 Steady-state equilibrium 461
  2.3 Changes in wealth, income, and consumption 462
  2.4 Transitional dynamics 465
3 The general framework 466
  3.1 The comparative static results of factor substitution 468
  3.2 Steady-state analysis 471
4 The distribution of wealth 473
5 Concluding remarks 478
Acknowledgment 480
Appendix. Normalization procedure of the two-level nested CES production function 480
References 481

CHAPTER 18 INVESTMENT, TECHNICAL PROGRESS, AND THE CONSEQUENCES OF THE GLOBAL ECONOMIC CRISIS 483
John Pawley and Ernst Juerg Weber

1 Decomposition of forecast-error-variances 486
2 Impulse responses 489
3 Conclusion 490
Acknowledgments 491
References 491

CHAPTER 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 $\bar{m}$ decreasing in $N$ 523
References 524

CHAPTER 20 OPTIMAL ABATEMENT INVESTMENT AND ENVIRONMENTAL POLICIES UNDER POLLUTION UNCERTAINTY 527
Enrico Saltari and Giuseppe Travaglini

1 Introduction 527
2 The model 529
   2.1 The value of the firm 531
   2.2 Investment, rents, and the value of firm 532
3 Environmental policy 534
   3.1 Taxes 534