Non-homothetic preferences, Growth and International Trade

Summary / Zusammenfassung
This project aims to give insight into the demand side effects on growth and trade in an international economy.

How does inequality in per capita incomes across countries affect growth and trade in a global economy? This paper develops a dynamic ”new” trade model where heterogeneous households have non-homothetic preferences. It is shown that on the balanced growth path a decline in global inequality, i.e. inequality across countries, may foster or hinder growth depending on the level of inequality and relative country sizes. The effect of a decline in inequality across countries on international trade is always unambiguously positive. Furthermore, during the transition to the balanced growth path, the poor country grows at a higher rate than on the balanced growth path whereas the rich country grows at a lower rate. In the transition to the balanced growth path, investment in research and development of new products is more attractive in the poor country relative to the rich country, so that the poor country catches up with the rich one.

Keywords / Suchbegriffe
Growth, Inequality, International trade

Project Leadership and Contacts / Projektleitung und Kontakte
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