

CIFREM SEMINARS

STRUCTURAL TRANSFORMATIONS IN PRODUCTION AND CONSUMPTION: LONG-RUN GROWTH AND INCOME DISPARITIES

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The paper provides a theoretical explanation for the dramatic differences observed in the income growth and distribution across countries and within countries through time. The model we propose provides micro foundations for linking structural change to economic growth. The model formalizes the links between production technology, firm organization, and functional composition of employment on the supply side and the endogenous evolution of income distribution and consumption patterns on the demand side. Wage distribution is the main channel between the organization of firms and the consumption patterns. Firm selection is the main trigger of capital investment, productivity increase, and cumulative causation growth through demand. We analyze the effect of different structural conditions via numerical simulations. We find that these conditions have a stunning effect on the long run rate of income growth and distribution. For example, product and demand variety have a jointly positive effect on growth when variety cumulates over time. Large jumps in technological change affect the economy in a very heterogeneous way, depending on the complexity of firm organization; the positive effect of complex organizational structures on growth can be hindered by large earning disparities.

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