

Endogenous Time Preference and Consumption Externalities in a Small Open Economy: Multiple Steady States and Indeterminacy

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Abstract

This paper presents a two-sector dynamic general equilibrium model in a small open economy and considers the role of endogenous impatiences in a neoclassical growth model with consumption externalities. In the case of the socially increasing marginal impatience, the steady state with incomplete specialization exhibits uniqueness and saddle-point stability. To the existence of locally indeterminate long-run equilibria with incomplete specialization, we need a large degree of increasing impatience in average consumption, and a sufficiently large degree of decreasing impatience in private consumption so as to dominate the increasing impatience in average consumption. In addition, the long-run effects of a terms-of-trade deterioration and a population growth on the economy's comparative advantage and its relation to indeterminacy are examined.

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