Dynamic Impacts of Trade Liberalization: In the Framework of Endogenous Growth with Productive Public Capital

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Outline

- Question: Does trade liberalization have no negative impacts?
- Twin Models: RCK type growth vs endogenous growth with productive public capital
- Key Assumptions: perfect foresight, perfect competition, complete international capital market
- Model Dimension: 3 regions, 3 sectors, 50 periods
- Simulations: liberalize trade between high- and middle-income economies (5 periods ahead)

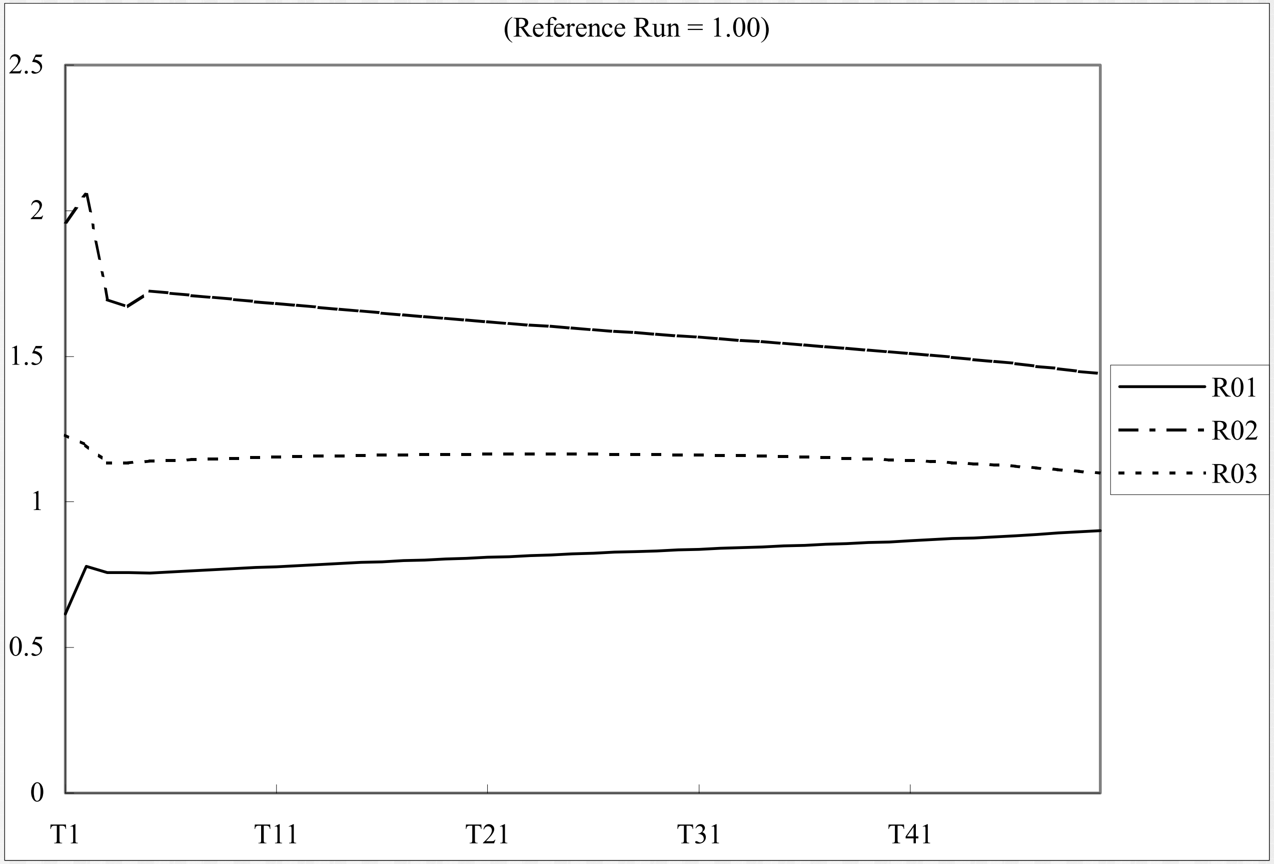
Features

- Production Function:

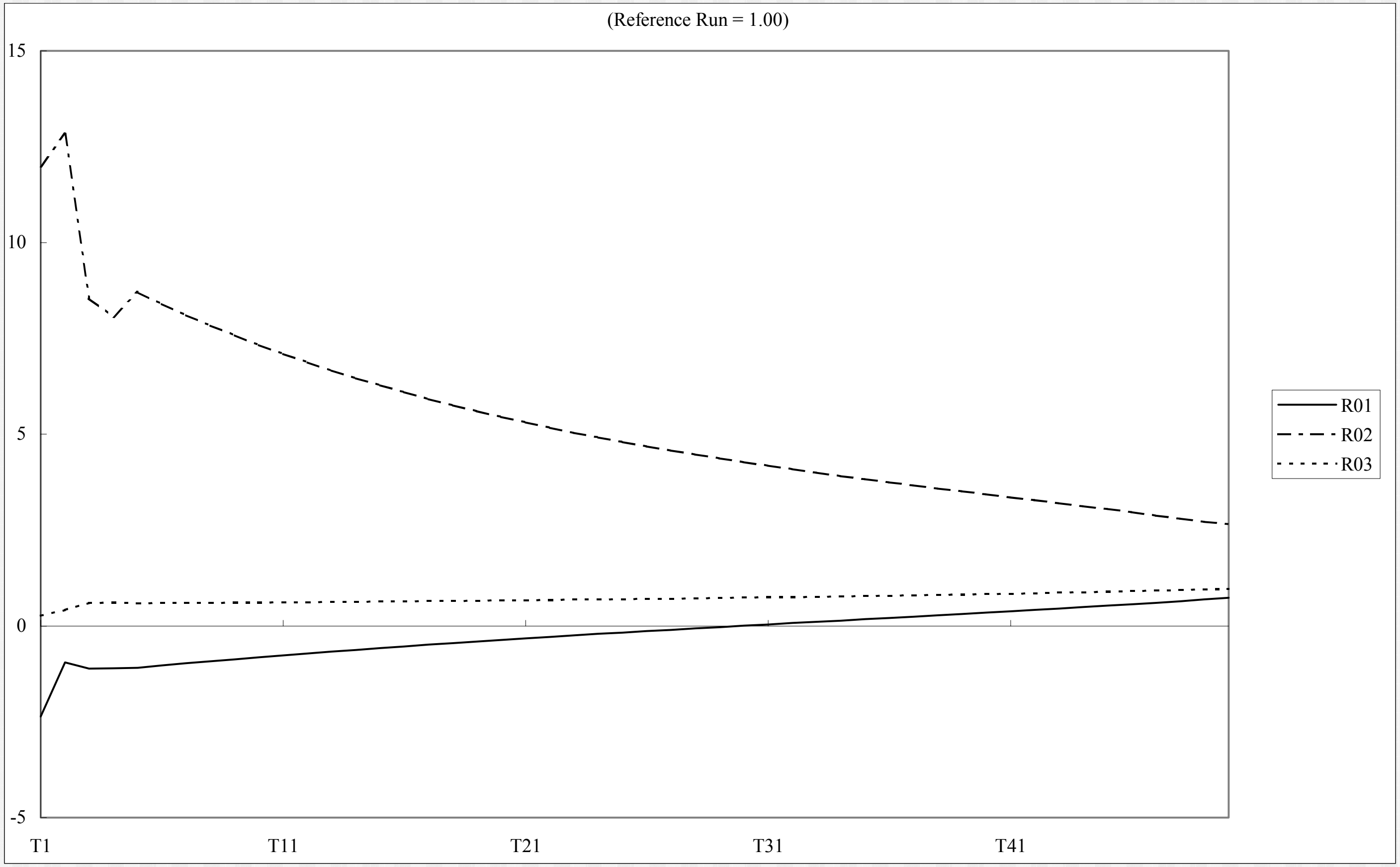
$$Y_{jrt} = \phi_{jr} K^{\alpha_{jr}}{}_{jrt} (J_{rt} L_{jrt})^{1-\alpha_{jr}}$$

- Government's Optimization: choose a time path of public investment that maximizes the household's welfare.

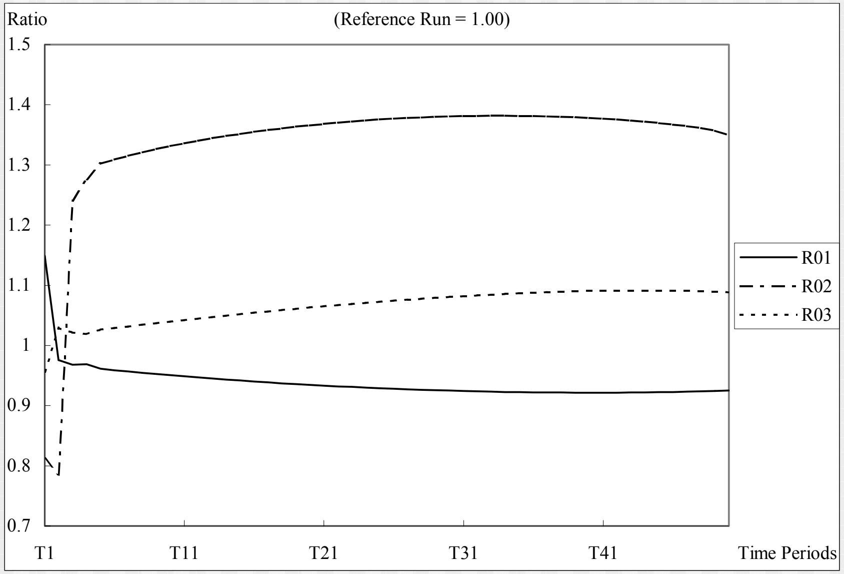
Simulation Results: Public Investment

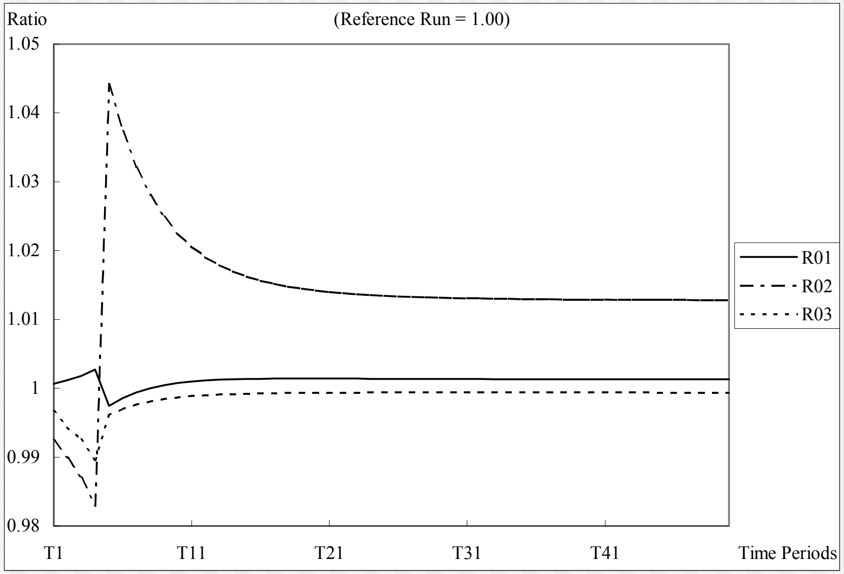


Simulation Results: Fiscal Deficit (Lump-Sum Tax)

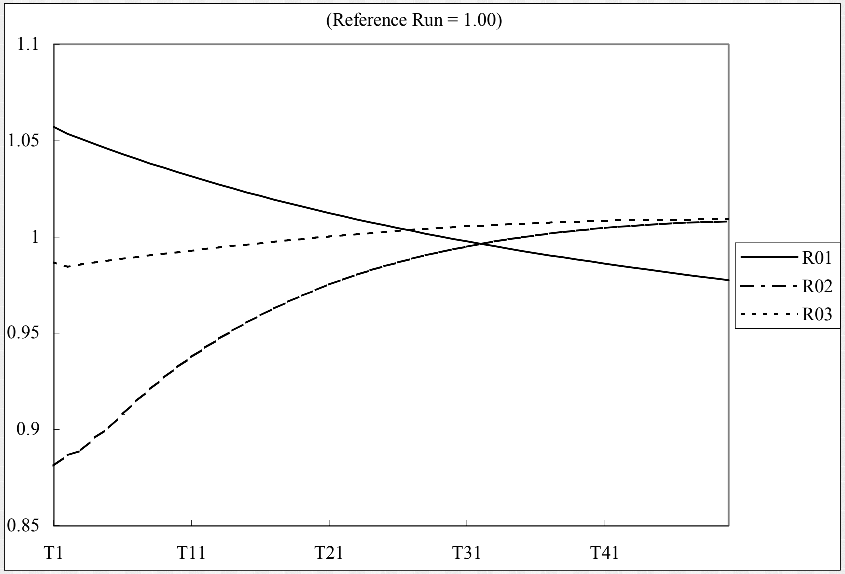


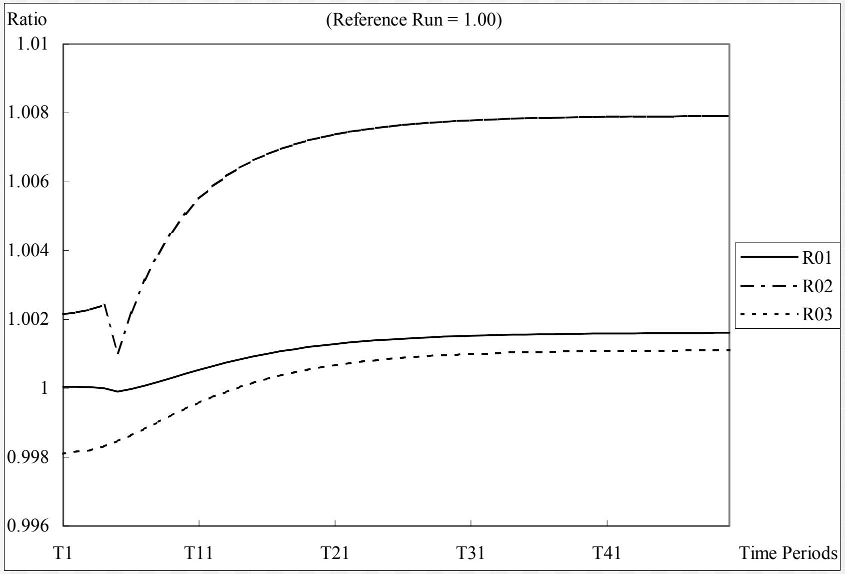
Simulation Results: Private Investment





Simulation Results: Private Consumption





Simulation Results: Per Capita GDP Growth