Growth and Distribution

Final Exam — LECO 3045

You will have to answer all the following questions. You can decide to type your responses or to write by hand and scan them.

DEADLINE: Tuesday May 11, 2021

1. (20 points) **Multiple Choice Questions**

   A) In which of the following models below the Paradox of Thrift **does NOT** hold (Choose two and explain them in one or two sentences):

   a. Classical-Marxian Model
   b. Solow Model
   c. Kaldor-Robinson Model
   d. Neo-Kaleckian Model

   B) What is the assumption that **does NOT** hold in the Kaldor-Robinson Model (Choose one and explain it in one or two sentences):

   a. Investment is autonomous (it does not depend on the level of current income)
   b. Investment determines savings
   c. Capacity utilization rate is an endogenous variable
   d. Income distribution is the adjusting variable

   C) What are the two assumptions we need to have for the paradox of costs to hold (Choose two and explain them in one or two sentences):

   a. Savings determine investments
   b. Endogenous determination of capacity utilization
   c. Demand-led growth through investment
   d. Investment is not a function of the expected profit rate, but of the profit share

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D) Which of these models **do NOT** produce the theoretical possibility of a profit-led result in the long-run (Choose one and explain it in one or two sentences):

a. Classical-Marxian Model

b. Solow Model

c. Kaldor-Robinson Model

d. Neo-Kaleckian Model

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2. (15 points) **Kalecki's Pricing and Distribution Theory**

   a. Provide a brief explanation of how prices are determined according to Kaleckian pricing theory.

   b. What are the determinants of the gross profit share in a closed economy according to Kalecki?

3. (25 points) **Neo-Kaleckian model**

   Assume the following simple Neo-Kaleckian model, represented by the equations below:

$$r = h\frac{u}{v},$$

$$h = 1 - \frac{1}{1+m},$$

$$\sigma = s_\Pi h\frac{u}{v}, \quad 0 < s_\Pi \leq 1,$$

$$g = \frac{I}{K} = \alpha + \beta u, \quad \alpha, \beta > 0,$$

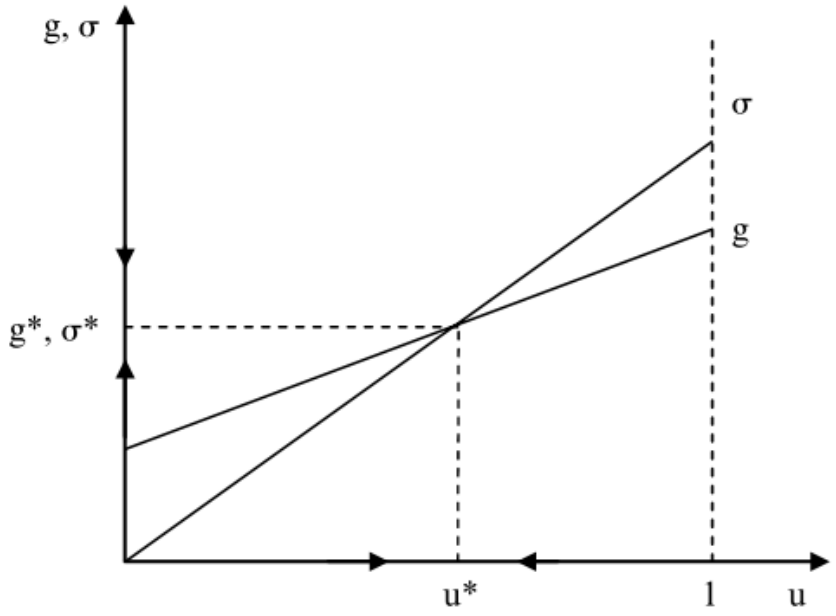
$$g = \sigma.$$

$$\frac{\partial \sigma}{\partial u} - \frac{\partial g}{\partial u} > 0 \quad \Rightarrow \quad s_\Pi \frac{h}{v} - \beta > 0.$$

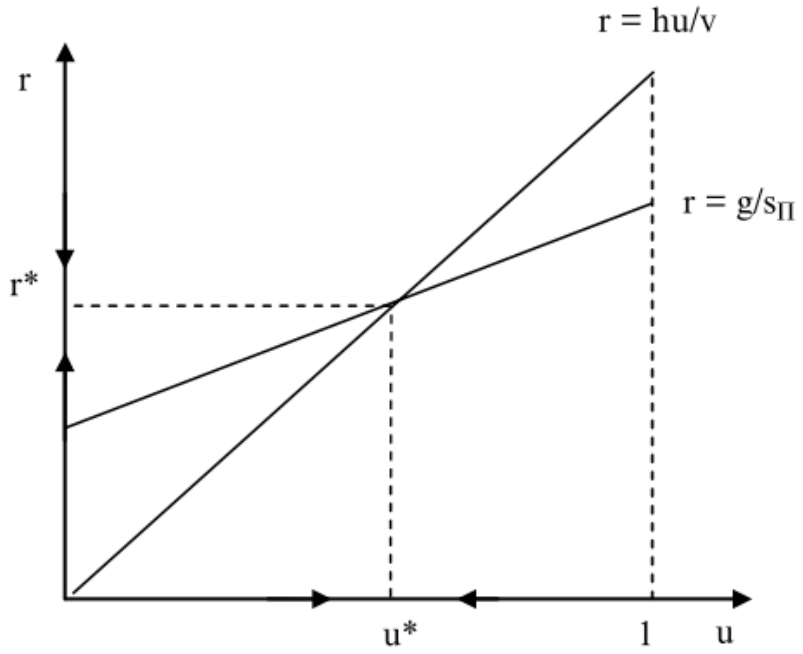
   a. Solve the model for the equilibrium rate of capacity utilization (u^*), the equilibrium profit rate (r^*) and the equilibrium growth rate (g^*) (*Hint*: Make use of the equilibrium condition $g = \sigma$).

   b. Demonstrate how the Neo-Kaleckian model predicts that a rise in the markup (resulting from an increased monopoly power of firms) will lead to sustained economic stagnation.

   c. Describe the adjustment process triggered by an increase in the propensity to save out of profits (increase of s_π). Illustrate your description in the diagrams below.

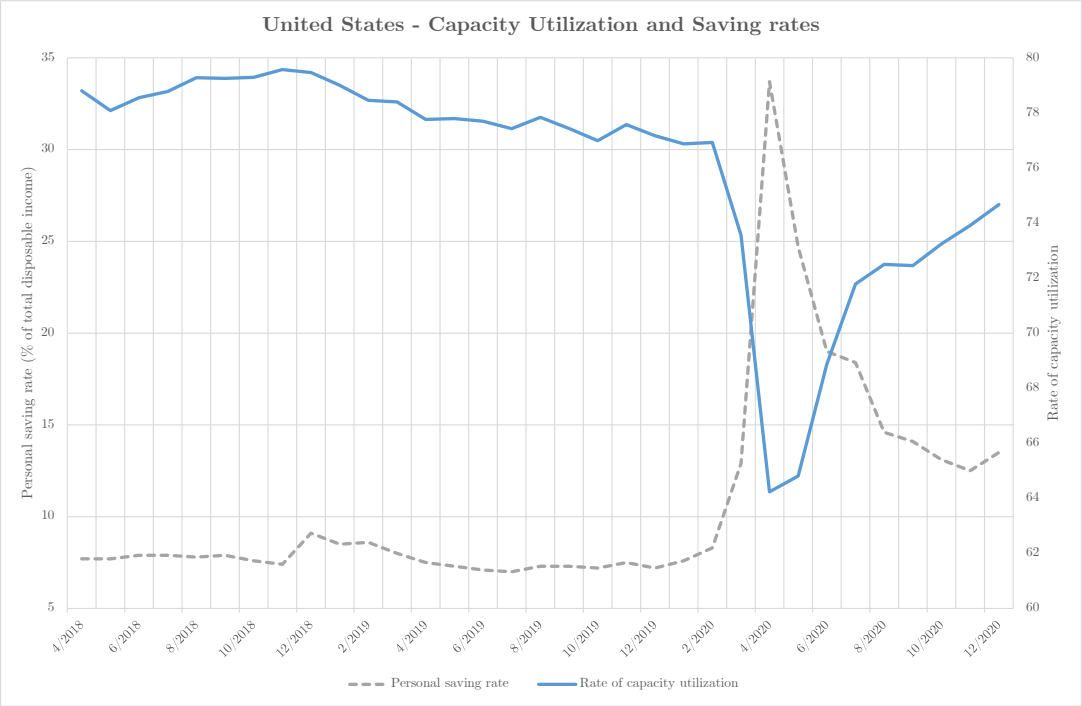


a) Accumulation rate and capacity utilization



b) Profit rate and capacity utilization

d. The graph below shows the dynamics of the personal saving rate and the rate of capacity utilization in the US before and during the COVID-19 recession. Assume that the personal saving rate is a good proxy for the propensity to save out of profits (s_π) in the Neo-Kaleckian model. Do you think that this empirical evidence provides support to the Neo-Kaleckian model? Why or why not?


United States - Capacity Utilization and Saving rates
Personal saving rate (% of total disposable income)
Rate of capacity utilization
35
30
25
20
15
10
5
80
78
76
74
72
70
68
66
64
62
60
4/2018
6/2018
8/2018
10/2018
12/2018
2/2019
4/2019
6/2019
8/2019
10/2019
12/2019
2/2020
4/2020
6/2020
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10/2020
12/2020
Personal saving rate
Rate of capacity utilization