

Growth and Distribution

Assignment 3 — LECO 3045

You will have to answer all the following questions. In your responses, you will need to use equations, graphs AND narratives. You can decide to type your responses or to write by hand and scan them.

DEADLINE: Wednesday April 21, 2021

1. (15 points) Kaldor's Keynesian distribution theory

1. What is the chain of causality for an adjustment of saving to an increase in investment in Kaldor's approach to income distribution? (you can simply use variables in the notation of the course and arrows to answer).
2. Why does a change of distribution lead to a change of saving?

2. (25 points) Kaldor-Robinson model

Assume the following simple Kaldor-Robinson model, as presented in the diagram below:

$$u^* = u_n = 1$$

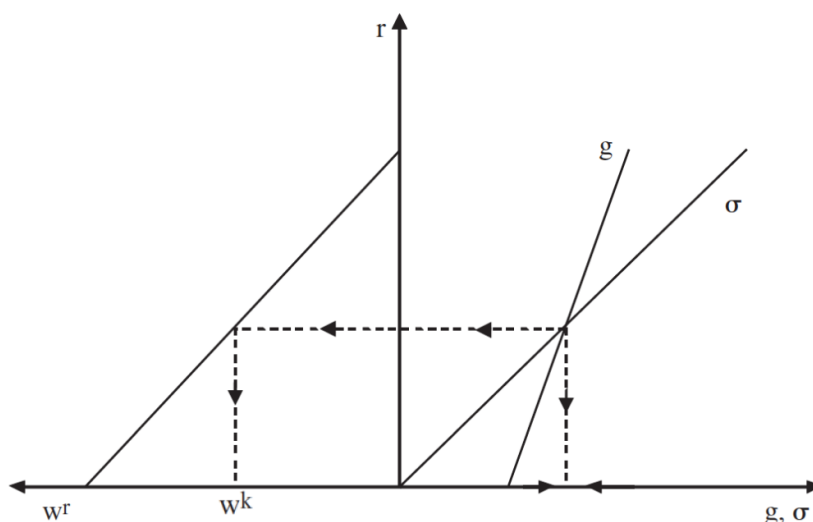
$$r = (1 - w^r a) \frac{1}{v}$$

$$\sigma = \frac{S}{pK} = \frac{s_n \Pi}{pK} = s_n r, \quad 0 < s_n \leq 1$$

$$g = \frac{pI}{pK} = \alpha + \beta r^c, \quad \alpha, \beta > 0$$

$$\frac{\partial \sigma}{\partial r} - \frac{\partial g}{\partial r} > 0 \quad \Rightarrow \quad s_n - \beta > 0$$

1. Describe the adjustment process triggered by an increase in animal spirits (increase of α). Illustrate your description in the diagram below.



2. What happens if workers are willing and able to defend a minimum real wage rate given by w^k ?