Consumption Externalities with Endogenous Time Preference

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Abstract

This paper shows that consumption externalities have impacts on the steady-state consumption and capital in a model with inelastic labor supply. The key element in observing the effects of consumption externalities on stationary consumption and capital is the endogeneity of time preference rate, which depends on the level of specific resources, rather than on that of private consumption. We explain the difference between our results and those obtained under elastic labor supply, which depends on whether the marginal product of capital is equal to the fixed or the endogenous time preference rate. Finally, it examines optimal tax policy.

Key words: Decreasing marginal impatience; Consumption externalities; Optimal tax policy

JEL classification: H21; H23; H31

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