

A Microeconomic Foundation of a Keynesian Growth Model

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Abstract

Combining a simplified non-Walrasian model with the overlapping generations model, we explore a microeconomic foundation of a Keynesian growth model and investigate the properties of it. We show that if the firm's expectation in planning the investment is assumed to be exogenously fixed the economy converges to the steady state where both equilibrium and potential outputs grow at the population growth rate although the full-employment is not necessarily guaranteed there, and moreover show that the steady state where the fixed expectation is self-fulfilling exactly corresponds to the long-run equilibrium of the neoclassical growth model if there is no adjustment cost of investment. It is also demonstrated that changes of the firm's expectation cause economic fluctuations through the impact on the aggregate demand.

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Key Words: non-Walrasian model, overlapping generations, Keynesian growth model, business cycle

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