Endogenous time preference with externalities and equilibrium indeterminacy

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January 21, 2010

Abstract

This paper assumes that a subjective discount factor is affected by an average level of investment in future-oriented resources in an economy (investment externalities) in addition to a level of individual investment in future-oriented resources. Under this assumption, this paper considers a maximization problem formulated as a pseudo planning problem and shows the conditions under which equilibrium indeterminacy arises. The results of this paper are compared to those of an existing model with a subjective discount factor which does not depend on investment externalities.

JEL classification: E32; H23; O40

Keywords: Future-oriented resources; Investment externalities; Equilibrium indeterminacy

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