

VARIETY EXPANSION, PREFERENCE SHOCKS, AND FINANCIAL INTERMEDIARIES*

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Abstract

In order to clarify the effect of lifetime uncertainty on growth of variety, preference shocks are incorporated into variety expansion model where financial autarky and financial intermediaries are comparably analyzed. In this economy, the long-term investment is conducive to the promotion of R&D investment and creation of new differentiated goods. The increase of number of differentiated goods induces the decrease of price index. In case of high risk aversion, the decrease of price index reduces R&D in each case of financial autarky and financial intermediaries. Also, if lifetime uncertainty and liquidation cost of long-term investment are serious problems, it is possible for financial intermediaries to promote growth.

JEL classification: G20; G11.

Keywords: variety expansion model, preference shock, endogenous growth, welfare analysis.

*This research is financially supported by MEXT - Supported Program for the Strategic Research Foundation at Private Universities, 2010-2012, No.S1002006

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