

# Growth Cycles in a Two-country Model of Innovation

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## Abstract

This study examines growth cycles in a two-country model of innovation. Although both R&D productivity and subsidy enhance the R&D activities, the effects on a tendency of cycles differ. We show that if one of the countries' R&D productivity increases, cycles tend to take place. With regards to the effect of R&D subsidies, an increase in R&D subsidies by both countries at a common rate decreases a tendency of cycles. It is also shown that if one of the countries' R&D subsidy increases, a tendency of cycles depends on a comparative (dis)advantage in R&D.

Keywords: Growth cycles, Innovation, R&D subsidy

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