Non Stationary Dynamics and Unequal Distribution in Kiyotaki-Moore Model: Theoretical Analysis

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Abstract

In a one sector growth model with distinguished liquidity introduced by Kiyotaki and Moore (2005, 2019), we permit entrepreneurs to choose unequal quantity of capital and workers to save money. With CES type production function whose elasticity of substitution is larger than one, a non stationary state can be equilibrium where the capital accumulates faster than national income and that the share of capital in national income increases while that of labor decreases, which is empirically discovered in Pikkety (2014). Contrary to the Kiyotaki and Moore, in the equilibrium, entrepreneurs save no money thanks to enough return from large quantity of accumulated capital and workers keep to hold money and consume their entire wage due to the low rate of return on capital relative to the time preference rate.