Capital Accumulation and the Rate of Profit in a Two-Class Economy with Optimization Behavior

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Abstract

By building a growth model with two classes, workers and capitalists, this study investigates the existence and the stability of the long-run equilibrium along the lines of Pasinetti (1962) and Samuelson and Modigliani (1966). Unlike preceding studies in which the propensity to save of each class is exogenously given, this study assumes that workers solve a two-period overlapping generations model while capitalists solve an infinite-horizon dynamic optimization model. Depending on the combinations of both classes' time preference rates, the parameter of the production function, and the population growth rate, we obtain two kinds of long-run equilibria, the Pasinetti equilibrium and dual equilibrium a la Samuelson-Modigliani. We show that under realistic values of the parameters, the economy is likely to converge to the Pasinetti equilibrium.

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