

Contents

1	Introduction	1
2	Preliminaries	3
2.1	Stylised facts of aggregate growth in developing countries	3
2.2	Development economics and growth theory	10
2.3	Methodological foundations	12
2.3.1	Essential concepts in growth theory	12
2.3.1.1	Dynamic equilibrium	12
2.3.1.2	Representative agent models	14
2.3.2	Neoclassical research programme	16
2.3.3	Critical rationalism	17
3	Economic growth with subsistence consumption	21
3.1	Introduction	21
3.2	The subsistence level of consumption	23
3.3	A linear growth model with subsistence consumption	27
3.3.1	The model	27
3.3.2	Implications	31
3.3.2.1	Dynamic equilibria	31
3.3.2.2	Transitional dynamics	33
3.3.3	Convergence considerations	37
3.4	Extensions of the basic linear growth model	43
3.4.1	The model	43
3.4.2	Implications	46
3.4.2.1	Dynamic equilibria	46
3.4.2.2	Transitional dynamics: simulation results	48
3.5	Summary and conclusion	52
3.6	Appendix	53
3.6.1	The linear growth model with subsistence consumption ..	53
3.6.2	The Jones-Manuelli model with subsistence consumption	57
4	Productive consumption and growth in developing countries	61
4.1	Introduction	61
4.2	Productive consumption: an overview	63
4.2.1	Empirical evidence	63
4.2.2	Theoretical approaches	66
4.2.2.1	Preliminary remarks	66

4.2.2.2 Consumption and the probability of survival.....	67
4.2.2.3 Consumption and the productivity of labour	69
4.3 The importance of productive consumption for growth.....	71
4.3.1 Productive consumption enhances the stock of human capital	71
4.3.1.1 The human-capital-enhancement function.....	71
4.3.1.2 The human-capital model	73
4.3.1.3 Implications.....	77
4.3.1.4 Simulation results.....	83
4.3.1.5 Modifications	87
4.3.1.6 Summary and conclusion.....	89
4.3.2 Productive consumption increases the efficiency of labour	90
4.3.2.1 The labour-efficiency model.....	90
4.3.2.2 Implications.....	92
4.3.2.3 Simulation results.....	93
4.3.2.4 Summary and conclusion.....	96
4.4 Appendix	97
4.4.1 The human-capital model.....	97
4.4.2 The labour-efficiency model	100
5 Transitional dynamics with endogenous control variables	107
5.1 Introduction	107
5.2 The convergence debate: a selective overview.....	108
5.2.1 Structural convergence equations.....	108
5.2.2 Main empirical results.....	116
5.2.3 Some methodological issues	118
5.3 Cross-sectional convergence analysis	122
5.3.1 Procedure and data	122
5.3.2 Endogeneity of control variables.....	126
5.3.3 Convergence analysis with endogenous control variables	128
5.3.4 Interpretation of main findings.....	130
5.4 Summary and conclusion.....	134
6 Summary and conclusion	137
7 References.....	141
List of figures.....	149
List of tables	150
Abbreviations	151