

# Contents

<b>List of Figures</b> .....	vii
<b>List of Tables</b> .....	ix
<b>Chapter 1 Introduction</b> .....	11
<b>Chapter 2 Literature Review and Development of the Model</b> .....	17
2.1 Introduction .....	18
2.2 Economic Growth and the existence of poverty traps .....	20
2.2.1 Poverty traps .....	20
2.2.2 Savings trap .....	21
2.2.3 Subsistence consumption and undernourishment .....	23
2.2.4 Changing time preferences and vitality .....	25
2.3 A model with vitality and consumption thresholds .....	27
2.4 Initial capital endowments and development aid .....	30
2.5 An illustration of the framework .....	32
2.5.1 The dataset .....	32
2.5.2 Vitality .....	35
2.5.3 Consumption .....	38
2.5.4 Country positions in a consumption-vitality framework .....	44
2.6 A tentative evaluation of the framework .....	45
2.6.1 Discount rates and the growth rate of mortality and their relationship to threshold consumption and vitality .....	45
2.6.2 Finding optimal thresholds .....	46
2.6.3 Results: The model with optimal thresholds .....	49
2.6.4 Limitations .....	52
2.7 Discussion and conclusion .....	53
Appendix A .....	55
A.1 Average Consumption per capita compared to the 1.25\$ poverty line in the pre- 2000 and the post-2000 period .....	55
A.2 Positions of countries in a consumption – vitality plane using average consumption per capita .....	56
<b>Chapter 3 A multi-stage optimum control approach to development</b> .....	59
3.1 Introduction .....	60
3.2 The basic AK model revisited .....	61

3.3	The inter-temporal optimization setting and the underlying principles of a multi-stage optimal control model .....	64
3.3.1	A multi-stage optimal control model with an infinite time horizon.....	64
3.3.2	A multi-stage optimal control model with a finite time horizon.....	66
3.4	Continuous time and discounting in a multi-stage optimal control model .....	67
3.5	Conclusion .....	69
Appendix B.....		71
B1.	Comparing the value function approach and the “Uzawa method” .....	71
<b>Chapter 4 Growing out of poverty .....</b>		<b>73</b>
4.1	Introduction.....	74
4.2	The development trajectory from the Distress quadrant to the Bliss quadrant ( $D_{II}$ ) .....	76
4.2.1	The time-paths in the Bliss stage.....	78
4.2.2	The time-paths in the Distress stage.....	79
4.2.3	Necessary initial endowments for the $D_{II}$ trajectory .....	80
4.3	The development trajectory from the Distress quadrant to ultimate collapse ( $D_{III}$ ) .....	81
4.4	The role of foreign aid .....	83
4.5	Parameters.....	86
4.6	Results.....	87
4.6.1	Base-line scenario: The $D_{II}^a$ trajectory from Distress to Bliss .....	87
4.6.2	The $D_{II}^b$ trajectory from Distress to Bliss.....	90
4.6.3	The $D_{III}$ trajectory from Distress to Ultimate Collapse.....	92
4.7	Sensitivity Analysis for the $D_{II}$ trajectory.....	93
4.7.1	Sensitivity analysis with respect to the initial values and optimum switching times ....	93
4.7.2	Sensitivity analysis with respect to the time-paths of the main variables.....	95
4.7.3	Sensitivity Analysis for the $D_{II}^b$ trajectory .....	102
4.8	Conclusion .....	104
Appendix C.....		107
C.1	First Order Conditions of the $D_{II}$ trajectory .....	107
C.2	Solutions to the Bliss stage.....	108
C.3	Solutions to the Distress stage.....	109
C.4	Linking the stages together.....	110
C.5	Transversality conditions and solutions to the $D_{III}$ trajectory .....	111
C.6	Reinterpreting the maximization problem in Distress.....	114
<b>Chapter 5 Natural catastrophes and Poverty traps .....</b>		<b>117</b>
5.1	Introduction.....	118
5.2	The $A_2$ trajectory from the Set-back quadrant to the Misery quadrant.....	120
5.3	Parameters.....	122
5.3.1	Preventing ultimate collapse: How much foreign aid is needed? .....	123
5.4	Results.....	127
5.5	Sensitivity Analysis of the $A_2$ trajectory .....	130

5.5.1	Sensitivity Analysis with respect to the initial values of shadow-prices and switching times .....	130
5.5.2	Sensitivity analysis with respect to the time-paths of key variables .....	131
5.6	Conclusion .....	137
<b>Chapter 6 Productivity externalities of vitality .....</b>		<b>139</b>
6.1	The Arrow model in an AK setting.....	141
6.2	The $D_{II}$ trajectory with productivity externalities to vitality.....	142
6.2.1	Summary of the solutions for the Distress stage and the Bliss stage .....	144
6.3	Parameters .....	145
6.4	Results .....	146
6.5	Foreign aid in a model with productivity externalities to vitality.....	148
6.5.1	Capital Transfers with interest charges .....	149
6.6	Sensitivity Analysis.....	150
6.6.1	Sensitivity analysis with respect to the initial values and optimum switching times ..	150
6.6.2	Sensitivity analysis with respect to the time-paths of the main variables .....	152
6.7	Conclusion .....	155
Appendix D .....		156
D.1	First order conditions for the Distress stage.....	156
D.2	First order conditions for the Bliss stage.....	157
<b>Chapter 7 Concluding Remarks .....</b>		<b>159</b>
<b>Bibliography .....</b>		<b>165</b>
<b>Valorization Addendum .....</b>		<b>171</b>
<b>Curriculum Vitae .....</b>		<b>174</b>