

Table of Contents

A. Globalization, Specialization and Innovation Dynamics.....	1
A.1 Introduction.....	1
A.2 Approaches in Modern Macroeconomics	3
A.3 Human Capital, Physical Capital and Innovations in Open Economies.....	7
A.4 A Critique of the Heckscher-Ohlin-Samuelson Approach.....	11
A.5 Solving the Leontief Paradox?	14
A.6 Variations on the Solow Model: Some New Insights for a Monetary Economy.....	20
A.6.1 A Generalization of the Solow Growth Model.....	20
A.6.2 Aspects of Empirical Analysis of Economic Development.....	28
A.7 Technological Progress and the Long Run Price Level	34
A.7.1 Process Innovations	34
A.7.2 The Model	36
A.7.2.1 True Long Run Equilibrium in the Money Market.....	36
A.7.2.2 Long Run Growth Perspective	39
A.7.3 Conclusions for Analysis of Process Innovations in a Monetary Economy.....	42
A.7.4 Solow Model and Role of Money for Growth.....	43
A.7.5 Monetary Growth Model and Tobin Paradox.....	52
A.7.6 Technological Progress Cycles.....	55
A.7.7 Equilibrium and Terms of Trade Aspects in a Simple Open Economy Growth Model.....	57
A.7.8 International Macroeconomics, FDI and Fiscal and Monetary Policy	59
A.7.9 Long Run Phillips Curve in a Growing Economy	63
A.7.10 Variable Output Elasticity of Capital	64
A.8 Foreign Direct Investment and Innovation.....	66
A.8.1 Innovation Dynamics and Multinational Companies	66
A.8.2 Modified Multiplier in Macro Model with FDI Outflows	77
A.9 Output Dynamics: Interaction of the Demand Side and the Supply Side .	81
A.10 Growth Accounting Under Unemployment and Okun's Law.....	83
A.11 Innovation, Trade and Foreign Investment	86
A.12 Conclusions.....	92
Appendix A.1: Aggregation in a Two-Sector Growth Model: A Modified Solow Approach with Cobb-Douglas Production Functions...	94
Appendix A.2: Two Sector Model.....	98
Appendix A.3: Labor Markets with Tradables and Nontradables.....	99
Appendix A.4: Product Innovations with Schumpeterian Intermediate Products: A Simple Formula.....	102
Appendix A.5: Medium-term Output and Wage Policies in an Open Economy	103

B. Savings, Investment and Growth: New Approaches for Macroeconomic Modelling.....	108
B.1 Introduction.....	108
B.2 A Medium-term Keynes-Solow Model.....	110
B.2.1 Capital Accumulation Dynamics and Profit Maximization.....	111
B.2.2 Choosing a Consistent Investment Function and a New Consumption Function.....	113
B.2.3 Multiplier Analysis.....	115
B.3 Conclusions and Possible Extensions.....	124
C. Economic Integration, Technological Progress and Growth.....	127
C.1 Rich Countries vs. Poor Countries and Economic Integration.....	127
C.2 Set-up of the Model.....	130
C.2.1 Convergence in a Hybrid Growth Model with Trade and R&D.....	132
C.2.2 Profit Maximization in the Hybrid Growth Model.....	135
C.3 Asymmetric Foreign Direct Investment in a Two-Country Growth Model.....	136
C.4 Policy Conclusions.....	138
Appendix C.1: Basic Neoclassical Model.....	140
Appendix C.2: General Approach and Simulations.....	140
D. Impact of the Real Exchange Rate on Trade, Structural Change and Growth.....	144
D.1 Introduction.....	144
D.2 Reputation, Market Size and Relative Price Effects: A Quasi-Balassa-Samuelson Effect.....	145
D.3 Real Exchange Rate Dynamics and Economic Effects.....	148
D.3.1 Real Exchange Rate and Trade.....	148
D.3.2 Real Exchange Rate and Structural Change.....	148
D.3.3 Real Exchange Rate and Growth.....	150
D.3.3.1 Growth and FDI in a Modified Neoclassical Framework.....	150
D.3.3.2 Negative International Spillovers?.....	155
D.4 Real Effective Exchange Rate (p/ep^*) Dynamics in Selected EU Countries.....	156
D.5 Wages, Prices and the Real Exchange Rate.....	156
D.6 Towards an Integrated Macroeconomic Approach.....	157
D.7 Medium Term Approach to Product Innovations, Output and the Exchange Rate.....	163
D.8 Economic Catching-up and Long Term Real Exchange Rate Dynamics.....	170
D.9 Policy Implications.....	174
E. Macroeconomic Aspects of Opening up, Unemployment, Growth and Transition.....	176
E.1 Introduction.....	176
E.2 Growth, Trade and Innovation.....	178
E.2.1 New Production Function for Open Economies.....	178

E.2.2 Foreign Direct Investment	181
E.3 Growth, Resource Dynamics, Balassa-Samuelson Effects and Unemployment.....	188
E.3.1 Growth, Natural Resources and Economic Welfare	188
E.3.2 The Balassa-Samuelson Effect, Unemployment and Exports.....	189
E.3.3 Wage Bargaining as Inherent Source of Unemployment?	192
E.4 Product Innovation and Macroeconomic Developments: Schumpeter and the Mundell-Fleming Model.....	197
E.4.1 The Role of Risk and Innovation.....	197
E.4.2 Endogenous Product Innovations in Countries with Similar Development Levels.....	199
E.5 Conclusions and Policy Implications	199
Appendix E.1: Maximization of Total Quasi-Income of Workers through Trade Unions.....	201
Appendix E.2: Mathematical Appendix.....	204
Appendix E.3: Reflections on EU Eastern Enlargement.....	206
Appendix E.4: Fiscal Multiplier in a Hybrid Approach.....	212
Appendix E.5: Reconsidering Aggregate Output in a Two-Sector Approach	213
F. Productivity Shocks, Innovations, Stock Market Dynamics and Growth.....	215
F.1 Introduction	215
F.2 Traditional and New Approaches to the Exchange Rate and Stock Market Dynamics	220
F.2.1 Stylized Facts of Exchange Rates and Stock Market Prices.....	220
F.2.2 A Short-Term Analysis of Financial Market Dynamics and Technology Shocks.....	228
F.3 Hybrid Model: Combining Interest Parity and Augmented Money Market Equilibrium.....	233
F.4 Capital Asset Pricing Model and Product Innovations	235
F.5 Consumption, Volatility and Growth.....	239
F.6 Policy Issues and Conclusions.....	241
Appendix F.1: Slope of Equilibrium Lines.....	243
Appendix F.2: International Bonds Market Integration, Interest Rates and Stock Market Volatility	244
G. Innovation Dynamics and Optimum Growth	248
G.1 Introduction.....	248
Standard and New Growth Theory.....	248
G.2 Endogenous Growth, Innovation and Maximum Consumption per Capita.....	251
G.2.1 Optimum Endogenous Growth.....	251
G.2.1.1 Role of Government Consumption.....	252
G.2.1.2 New Political Economy	253
G.2.1.3 High Population Growth vs. Ageing Societies	255

G.2.1.4 Unemployment and Growth	256
G.2.2 Optimum Growth and Endogenous Growth Modeling in Open and Closed Economies	257
G.2.3 Biased Technological Progress and Optimum Growth.....	262
G.2.4 Efficient versus Optimal International Specialization	263
G.3 Policy Implications	266
Appendix G.1: Optimum Quantity of Money.....	268
Appendix G.2: Specialization, Technological Progress and Factor Price Ratios	269
Appendix G.3: Endogenous Progress in the Capital Goods Sector	270
Appendix G.4: Simple Differential Equation and Bernoulli Differential Equation	272
Appendix G.5 The Macroeconomic Foundation of Microeconomics.....	274
H. Trade, Structural Change and Growth in an Open Monetary Economy 275	
H.1. Introduction.....	275
H.2. Exchange Rate Dynamics, Relative Prices, Employment and Growth ..	277
H.2.1 Nominal Exchange Rate, Real Exchange Rate and True Long Run Money Market Equilibrium	277
H.2.2 Real Exchange Rate, Growth Path and Steady State	282
H.2.3 Investment, Real Exchange Rate and Employment.....	286
H.2.4 Technology, Exchange Rate Changes and the Relative Tradable Price	289
H.3 Real Exchange Rate Dynamics and Economic Effects.....	292
Appendix H.1: Statistical Measures of Structural Change.....	295
Appendix H.2: Indicators Measuring Structural Change.....	297
I. Innovations in the Digital Economy: Promotion of R&D and Growth in Open Economies	298
I.1 Introduction	298
I.2 Innovations and New Economic Structures in the Digital Economy	301
I.2.1 Selected Innovation Traits in OECD Countries.....	301
I.2.2 Innovation System and Innovation Record	313
I.2.3 High Technology, ICT Growth and Modernization of the Economic System.....	315
I.3 Theory of Innovation Policy.....	324
I.3.1 The Standard Case	324
I.3.1.1 Intermediate Traded Products, R&D Subsidies and Rent-Shifting	326
I.3.1.2 Macroeconomic Approach: A Schumpeter-Mundell-Flemming Model	329
I.3.1.3 Empirical Insights from the Analysis of Innovation, Growth and Structural Change	332
I.4 Policy Conclusions.....	333
I.4.1 General Policy Conclusions for Innovation Policy in Open Economies	333
I.4.2 Specific Policy Conclusions for Germany	334

I.4.2.1 R&D Promotion for Medium Technologies and High-tech Industry	334
I.4.2.2 Skill Upgrading and Reform of the Education System	335
I.4.2.3 Problems with Immigration of Unskilled Labour	335
I.4.2.4 Improving Knowledge Transfer from University to the Business Community	336
I.4.2.5 Keeping Skilled Workers and Innovation Leadership in the Region.....	337
I.4.2.6 A European Policy Perspective.....	338
Appendix I.1: Optimum Product Innovation under Uncertainty.....	339
Appendix I.2: Product Innovations and Network Effects in a Simple Model	340
Appendix I.3: NACE (EU classification)	344
Appendix I.4: Market Entry of Digital Good Producers in a General Equilibrium Model.....	344
J. EU Innovation Policy: Analysis and Critique	351
J.1 Introduction	351
J.2 Innovation Policy in the EU	353
J.3 Innovation Dynamics in OECD Countries	354
J.3.1 Innovation, Specialization and Growth: Empirical Analysis for EU-15 and USA	354
J.3.2 Comparative Innovation Dynamics	355
J.3.3 Acceleration of Innovation Dynamics	360
J.3.4 Specialization in Innovation and ICT Network Perspectives.....	362
J.3.5 Openness, Taxation and Growth.....	366
J.4 Recommendations for Future EU Innovation Policy.....	368
K. Financial Market Integration, Interest Rates and Economic Development.....	371
K.1 Introduction.....	371
K.2 Financial Market Integration in the EU	378
K.2.1 From Basic Theory to Endogeneous Growth Approaches	378
K.2.2 Current Account Dynamics: A New Approach	382
K.2.3 Monetary Integration, Financial Market Integration and Welfare Effects.....	384
K.3 Integration of Financial Markets in the Euro Zone and Global Dynamics	389
K.4 Policy Conclusions.....	390
K.5 FDI and Information and Communication Technology in the Dornbusch Model	392
K.5.1 Basics of the Dornbusch Model.....	392
K.5.2 The Modified Dornbusch Model	393
K.5.3 Conclusions	403
Appendix K.1: Aspects of Transition and Trend Growth in a Setup with Technology Shifts	405
Appendix K.2: Uncertainty, Savings and Product Innovations	405

Appendix K.3: A Macro-Model with Unemployment and Endogenous Taxation	407
L. Natural Resources, Oil Prices and Innovation Dynamics	410
L.1 Introduction	410
L.2 Theory of Natural Resource Pricing	415
L.2.1 Technological Progress in the Oil Industry	416
L.2.2 Non-Stationarity of Oil Prices?	419
L.2.3 Which Interest Rate is Relevant?	420
L.2.4 Long Term Macroeconomic Aspects of Oil Price Dynamics	423
L.3 Oil Price Regression Analysis	425
L.4 Policy Implications	431
L.5 Sustainability Issues	433
Appendix L.1: Data Sources	439
References	440
List of Figures	449
List of Tables	454