An Endogenous Growth Model with Quality Ladders and Consumers' Heterogeneity

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ABSTRACT

This paper develops an endogenous growth model with quality ladders where consumers heterogeneity is assumed and is modelled through non homothetic preferences. We show that in such a model, unlike mainstream quality ladders models, the steady state equilibrium is characterized by a duopoly were the state of the art technology and the one immediately below it are both able to survive and thrive, under given conditions for the income distribution. In the words of Schumpeter, this model delivers only partial creative destruction. Furthermore, we show that under duopoly, an increase in the degree of income inequality raises the intensity of research activities and the growth rate of the economy.

KEYWORDS
- Industrial Organization
- Income Distribution
- Technological Change
- Innovation
- Growth

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