

ABSTRACT

A model of investment and capital utilization is developed. The problem of capital utilization is considered in a context of joint products of current output and capital output. Capital utilization decisions are forward-looking and represent a trade-off between current and future output production.

In the paper the dynamic adjustment paths of investment and utilization are determined. The path of capital utilization is a flexible accelerator and depends on changes in product price, wage rate and interest rate. In addition, model simulations are undertaken through a parameterization of the production, adjustment cost, and duration cost functions to show how sensitive capital utilization is to changes in the coefficients determining capital accumulation.

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Address correspondence to:

Jeffrey I. Bernstein
Department of Economics
Carleton University
Ottawa, Ontario K1S 5B6
CANADA

M. Ishaq Nadiri
Department of Economics
New York University
269 Mercer Street, 7th fl.
New York, NY 10003
U.S.A.