

ABSTRACT

We investigate the properties of the one sector growth model with increasing returns. Two possible organizational structures are provided, each of which is capable of reconciling the existence of increasing returns in the aggregate technology with competitive behavior by firms. The first of these involves input externalities and the second involves monopolistic competition. We show, for parametric values that are in close accord with recent literature in real business cycle theory, that the model displays an indeterminate steady state. We point out that one may exploit this indeterminacy to generate a model of business cycle fluctuations that is driven by the self-fulfilling beliefs of the agents in the model. Our analysis is conducted in two classes of growth models. In the first; growth is generated by exogenous increases in factor productivity. In the second; we allow the marginal product of capital to be large enough for *endogenous* growth to occur. In both classes of models we show that there may be an indeterminate steady state.