

## Abstract

We introduce, into a version of the Real Business Cycle model, mild increasing returns-to-scale. These increasing returns-to-scale occur as a consequence of sector specific externalities, that is externalities where the output of the consumption and investment sectors have external effects on the output of firms within their own sector. Keeping the production technologies for both sectors identical for expositional simplicity, we show that indeterminacy can easily occur for parameter values typically used in the real business cycle literature, and in contrast to some earlier literature on indeterminacies, for externalities mild enough so that labor demand curves are downward sloping. *Journal of Economic Literature* Classification Numbers: E00, E3.

Key Words: Real Business Cycles, Indeterminacy, Sunspots.

Send correspondence to: Professor Jess Benhabib  
Department of Economics  
New York University  
269 Mercer Street, 7th Floor  
New York, N.Y. 10003