

Two Ways to Rule Out the Overconsumption Paths in the Ramsey Model with Irreversible Investment.

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Abstract

In this note I develop two approaches to rule out the overconsumption paths in the Ramsey model with irreversible capital. The first focuses on the multiplier of the irreversible constraint and is applied to the situation where preferences are CES and the production function is Cobb-Douglas. The second, relies on a revealed preference argument and is used to rule out overconsumption paths when the preferences are strictly concave and the initial level of per effective capital is below its steady state level.

JEL: O4, C6.

Keywords: Ramsey growth model, Irreversible capital, Overconsumption paths.

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