Indeterminacy in a dynamic two-country model

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July 30, 2004

Abstract

The purpose of this paper is to show that indeterminacy arises in a simple competitive two-country dynamic model of international trade which is based on the standard assumption of international factor immobility, and free of externalities, imperfect competition, and government intervention. This seemingly surprising result comes from the intrinsic properties of the standard dynamic trade model, a system that includes neither an international credit market nor international factor mobility. As will be shown later, dynamic equilibrium paths of our two-country, therefore heterogeneous consumer, model are not Pareto-optimal.