Discount Factor and Optimal Policy
in the Leontief Two-Sector Growth Model
(Preliminary Version)

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Abstract: This essay presents the existence of two important threshold discount factors $\bar{\rho}$ and $1/\zeta$, and derives the associated optimal policies on the discounted optimal growth in a Leontief two-sector model. When the discount factor is below $\bar{\rho}$, the optimal policy has a 'tent' shape and an optimal program possibly follows a multi-period cycle. When the discount factor is above $1/\zeta$, the optimal policy derived in the undiscounted case is optimal and an optimal program always converges to the modified golden rule capital stock.

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