Aggregate fluctuations in deterministic Time-to-build Model

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Abstract

This paper studies a deterministic version of a one-sector dynamic general equilibrium model in which multiple periods are required to build new capital goods and only finished capital goods are part of the productive capital stock. It is demonstrated that almost arbitrary paths whose growth rates are positive and bounded can be realized as equilibrium capital paths in accordance with the investment projects. This result makes a sharp contrast to the existing literatures on a one-sector model which show that equilibrium capital paths converge to a steady state.