

Have we missed the right version of the standard Ramsey Growth model?

Atef Khelifi (Concordia University, Canada)

Surprisingly, and as a result of intellectual curiosity, the resolution of the Ramsey growth problem with a Utility function describing relative preferences for consumption and savings, happens to provide formidable results and interpretations. An advanced microeconomic analysis of this particular assumption which follows consequently, and presumably the sole one of the literature, reveals that it may be a judicious way to formalize the desire of the individual to save each time in the Ramsey model, and to control for the degree of the direct preference for thriftiness implicitly involved. It may also be a judicious way to control for the “love of wealth” (or capitalist spirit) strongly defended by authors like Zou(1994), Carroll (2000), Bakshi & Chen (1996)... They indeed show empirically that it is necessary to build a theory in which individuals are interested by higher social positions, apart from consumption only.

Assuming a more general Utility function of this kind shows that the standard Ramsey model is a particular restrictive case, where basic static properties of the steady state known from the Solow model (1956), including important ones related to the golden rule, appear to be missing because of the “constrained” neutrality of this preference for thriftiness.