

Status-Seeking, Catching-Up and Comparative Statics in a Dynamic Heckscher-Ohlin Model*

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Abstract

This paper examines a two-country dynamic general equilibrium model with status-seeking agents. We show that the introduction of status-seeking behavior brings about new properties in equilibrium dynamics. While there exists a continuum of steady states in the standard two-country, two-factor dynamic Heckscher-Ohlin models, the present framework demonstrates that, under some conditions, there uniquely exists an incompletely specialized steady state, which is locally saddle-point stable. Therefore, catching-up phenomenon of economic development can be explained, and comparative statics analysis also comes to be possible. Our comparative statics analysis illustrates, for example, that trade pattern is determined in the Heckscher-Ohlin manner; the patient country acts just like a capital abundant one to export the capital-intensive good. Furthermore, differing from the existing literature in which any policy difference between countries unavoidably leads to specialization, the present study shows that the existence of an incompletely specialization steady state can be ensured even the two countries conduct different policies.

Keywords: Status-seeking, equilibrium dynamics, trade pattern

JEL Classifications: D31, D91, F11

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