

INVESTMENT ALLOCATION, RELATIVE PRICE STABILITY AND STABLE GROWTH*

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STUDIES on growth equilibrium and optimal approach have so far considered economic policy implied by the structure as a tool to attain growth equilibrium defined independently of such policies. (See Kurz [1], Stoleru [3], Uzawa [5].) In a recent article [4], the authors have considered the existence of growth equilibrium with an adaptation of the structure of production consistent with the economic policy parameters required to attain it and defined growth equilibrium along HACSR (the highest attainable capital stock ray).¹

In the present article, we consider an open economy in a developing stage, which has most of its imports of the capital goods type, and which has undergone a devaluation of currency following a chronic balance of payments deficit. Retaining full employment along HACSR and balanced growth as the long-run objectives, we analyze the efficiency of investment allocation and relative price stability in bringing about balanced growth and balance of payments equilibrium.

I. *The Assumptions and the Model*

Consider a two-sector economy in which Sector 1 produces capital goods and Sector 2, consumer goods. It will be assumed that capital goods produced in any period can be used equally efficiently in both sectors and that they cannot be transferred once installed in any one sector.

Assume, for simplicity, that production in both sectors is characterized by constant coefficients and write :

$$(1.1) \quad Y_i = a_i K_i; \quad i = 1, 2$$

where
 Y_i = output of sector i

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¹ Note that the notion was merely illustrative of a large class of formulations and we do not claim any absolute practical relevance at the present stage of analysis.