

A One-sector Growth Model with Consumption Standard: Indeterminate or Determinate?*

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Abstract

In a representative agent, one-sector growth model in which the discounting is increasing in the agent's consumption and decreasing in the consumption standard measured as the current social average consumption, Drugeon (1998) establishes local indeterminacy. This paper extends Drugeon's keeping up with the Joneses setup in the discount rate to a general specification which includes both the keeping up and the catching up with the Joneses setup in the discount rate. We find equilibrium indeterminacy only when the keeping up with the Joneses phenomenon in the discount rate and the speed of adjustment of the catching up with the Joneses phenomenon are both sufficiently large.

Keywords: habit formation; indeterminacy; one-sector model.

JEL classification: E21; E32

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