Index

AIDS, 445, 447 accumulated surplus, 359 Acemoglu, Daron, 364, 517-21 Alabama, 404–5 Africa: convergence to high alternative technologies, 122 performance level, 34; deficiencies appropriability of returns, in governance, 392; exchange 76-77 rates, 418; export-led growth Arkansas, 404–5 strategy and, 27; FDI in, 422; Arrow, Kenneth, 485–87; Arrow-IMF structural adjustment Debreu model, 16–17, 19–20, policies stifling growth, 373-74; 52, 102, 142, 161-62, 490, 500; industrial policies, 399–400; endogenous growth theory, making most of natural resources, 1-3, 15-16; endogenous learning 371, 385–87; structural adjustment analysis, 473, 481; on learning and deindustrialization, 360-61, and level of investment, 401; on 388; Washington Consensus market structure, 104; on Pareto policies effect on, 481-82 optimality, 1-2, 19-20 Arrow-Debreu model, 16-17, 52, 102, agency problems, 409 age structure, society's, 58 142, 161-62, 490, 500; assuming aggregate production function with away innovation, 19-20 constant returns to scale, 151-52 asymmetric Bertrand equilibria and Aghion, Philippe, 10, 179, 234, nonexclusivity, 200-202, 201 499; OECD study, 520; on TFP asymmetric equilibria and growth, 497-98 advantage of specialization, Agricultural Extension Service, 5, 93 328-30, 329 agricultural sector, 150, 507; asymptotic behavior, 319 distortionary tax on, 277–79; Atkinson, Anthony B., 64 impact of quotas, 346, 346-47; AT&T, 119, 442 industrial sector and, 332; model Australia, 14 farms, 54 Austria, 30–32, *31*

Baily, Klinger, 35 biased perceptions, 70-71 Baltic countries, 30–32, 31; BlackBerry, 435 convergence to high performance Bloom, Nicholas, 506 BNDES. See Brazilian Development level, 33-34 Bayh-Dole Act, 54, 433, 439 Bank Boyle, James, 433 Bayraktar, Nihal, 403 belief systems and social constructs, BRAC genes, 145 460-63; beliefs versus reality, Brazil, 500; development banks, 395; 62; biased perceptions, 70-71; industrial policies and, 390-91; capitalism and selective framing infant aircraft industry, 502-3; of evidence, 71; cognitive frames, sugar-based ethanol development, 61-62, 72-74; The Entrepreneurial State: Debunking Public vs. Private Brazilian Development Bank Sector Myths, 445; equilibrium (BNDES), 395 fiction, 71, 73, 75, 471, 481; Britain: aggressive protection and invisible hand notion, 18–19; subsidies, 389; factor endowments mindsets, 9, 48, 57, 61-63, 73, 457in, 24; financial market 59, 472; persisting beliefs, 465-66 liberalization example, 403-4; benefit tax, 450 terms of trade, 4. See also United Berners-Lee, Timothy, 136 Kingdom Bertrand equilibria, 195–96, 234, 236; broad tariff protection, 4–5, 500–501 asymmetric Bertrand equilibria bureaucracy, innovation and, and nonexclusivity, 200-202, 201; 84-85, 85 Cournot competition compared Burns, Arthur, 504 to, 191-96; distinct features of, 191; marginal return to increased Canada, 39 investment in R & D, 208, 208-9, capital: 2008 global financial 209; multiple potential entrants: crisis, 42, 96, 151, 372, 405, 418, contestability, 198-200, 199; 491, 495; access, 401; controls, stochastic research and, 207-10, 405; Frontier moved out by 208, 209; symmetric equilibrium, investing in, 40-43, 92; improved allocation of, 42; for R & D, Bertrand price-competition model, 79, 408 103, 110-12, 116, 119 capitalism: aftermath of 2008 crisis, best practices: catching up to, 38-39; 42, 96, 151, 372, 405, 418, 491, cross-border knowledge flows, 93; 495; capital flows: failure of failing to learn, 32; gap between standard theory, 407–15; China's average and, 18, 44, 81-82; gap state-directed, 389; crony, and between productivity and, 29–30, corruption, 375; innovation as 80; microscopic perspectives, 34; heart of, 57, 101; managerial, 478; recessions and depressions, model farms, 54; productivity

40; Schumpeter's optimistic

growth total versus hours paid, 39

perspective, 101–2, 169–70; selective framing of evidence, 71; U. S. cutthroat competition, 364–65. *See also* neoclassical model capital market liberalization: financial market, 402–5, 407, 414–17, 475, 477; trade policy, 361; Washington Consensus, 23, 80, 374–75, 402, 405, 481–82, 493, 509–10

carbon tax, 517–21
catalysts for learning: in learning
economy, 59–60; mobility as, 78,
92; new knowledge as, 48; new
production methods as, 52–53;
what we learn from others as,

catching-up countries: best practices in advanced countries, 44; broad tariff protection, 4-5, 500-501; channels of learning, 455-56; criticisms of infantindustry argument, 489, 511-12; development-oriented IPR, 454; economic circumstances of, 68-70; evergreen patents, 440; financial market liberalization and, 403-4; flow of funds, 411; funds diversion from, 405-6; GDP with industry-level tariffskill interaction term, 512; industrial niches, 512-16; infantindustry argument and, 333-34, 500-501, 510-11; intellectual property regimes, 59; IPR static inefficiencies within, 431; knowledge gaps between industrialized and, 44-45, 70, 360-61, 372-73, 481; knowledge trade-offs, 78-79; knowledge transmission, 48; learning economy and, 51; McKinsey

Global Institute study on, 501–2; social benefits from intervention, 336; Solow on comparative advantage in, 500, 502; steady-state solution, 351–53, 352, 353; trade policies model, 365–66; two economies model, 341–45; two-sector model, 337–44, 338; underpricing of natural resources, 171, 377

chimney sweeps alternative, 446 China: comparative advantage in, 355; dominance in world market, 498; exchange rate policy, 420, 488–89; favoring broad barriers to trade, 396; FDI in, 507; growth after commercial reforms, 33-34; industrial policy, 391, 495; investments in R & D, 455; learning-related trade restrictions, 389-90; outward-bound investment, 423-24; quality of life, 30-32, 31; reserves and surpluses, 362; restricted capital outflow, 407; state subsidies and product market competition, 497-98

Cimoli, Mario, 429 clean innovation subsidy, 517–21 climate change: carbon tax, 517–21; clean innovation subsidy, 517–21; government role, 20, 495, 498; modern science on, 62; World Commission on Environment and Development, 442

closed economy: basic model, 268–70, 269; basic model: consumption, 268–72, 269, 275–79, 287–88; basic model: optimal production and consumption, 289–95; costs of learning, 274; distorting consumption, 277;

closed economy (continued) distortionary tax on agricultural sector, 277-79; elasticity of demand, 277; elasticity of substitution, 279; infant-economy argument for protection, 265, 476; learning sector subsidy, 282; lower societal innovation, 266; lump sum taxation in, 267, 273-74, 277, 279, 282; market imperfections, 267-68; market structure and innovation, 279-81, 280; monopoly and welfare calculations, 281-82; monopoly power and wages, 266; optimal industrial subsidy, 276-77; optimal interventions in, 274-79; optimal tax intervention, 275; productivity growth, 270-71, 490-91; rate of technological progress, 271; with separable demand, 276; two-period discrete time, 271; two-period utility, 273-74; unfettered markets inefficiency, 272-73; value of research and level of production, 285. See also learning by doing Coase, Ronald, 28, 474 cognitive frames, 61-62, 72-74 cognitive impediments, 73. See also belief systems and social constructs Colbertist policy, 509 Columbia University, 500 Commission on Growth and Development, 500, 521 common pool problem, 144-45 common resources problem, 240–46; better regulation, *246*; effect of improved investment environment, 243; effect of increased competition, 244;

equilibrium fish extraction as function of fishing population, 241; equilibrium fishing stocks, 242; rate of increase in fishing stocks as function of fishing population, 240. See also natural resources commons, enclosure of, 145-46, 238, 433, 451 communist countries, quality of life, 30-32, 31 Communist Manifesto, 14 comparative advantage: absolute advantage versus, 338; in catching-up countries, 500, 502; changes in, 362-63; China's, 355; dynamic, 385; Korea's industrial protection, 338-39, 338-40, 363, 489; in learning economy, 49; redefined theory of, 24-28; static, 385 compensation systems, 123 competition: behavior of monopolist, 312-13; business cycle and, 520-21; China's state subsidies, 497–98; common resources problem, 244; Cournot, 191-96, 195, 202-6, 204, 212-13, 234, 235–36; creative destruction, 191-95, 198, 207-10, 208, 209, 212-13; cutthroat, 364-65; example of Myriad Genetics, 145; government intervention two-sector model, 316-17; imperfections of, 138-41; innovation efficiency and, 110–13; innovation linked to, 103, 478; intensity and innovation efficiency, 110-13; intervention in monopolistic, 316–17; labor supply elasticity, 314–15, 318; laws and policies, 171; link with innovation, 103, 478; lump sum tax subsidy and, 315-16; market

distortion in monopolistic, 313; monopoly outcome versus competitive outcome, 313-15; multiple rational expectations equilibria, 317-18, 318; myopic versus nonmyopic monopolist, 314; pace of innovation and, 127-29; perfect, compared to monopolistic, 139-40, 140; private rewards and social returns, 143-44; relationship between innovation, consumer welfare, and, 123-24; welfare-enhancing government intervention, 311. See also Schumpeterian competition competition laws and policies, 171 competitive equilibrium, 269, 269-70; closed economy, 269, 269-70; Smith on, 2 complementarity, of government and private sectors, 517 computerization, 52 Connecticut Mutual, 35, 35 constrained monopolist, 220-21 constrained optimality, 135 consumer welfare: failure of earlier models to account for, 237; government intervention and, 311, 318; innovation results, 126, 430; market structure impacting innovation and, 279-81, 280; monopoly and welfare calculations, 281-82; under monopoly versus duopoly, 107–8; relationship between competition, innovation and, 123-24; socially optimal innovation, 222-23; social welfare maximization, 156, 190-91, 232-33; social welfare optimization, 232–33; trade intervention distortions impacting, 358

consumption: between 1941 and 1945, 38; in basic model of closed economy, 268-72, 269, 275-79, 287-88; basic model: optimal production and, 289-95; delayed intervention impacting, 518; Diamond-Mirrlees model, 363–64; encouraging, with lump sum taxation, 301-4, 306-7; free-trade possibilities curve, 339, 342; learning elasticity and spillovers, 323-28; logarithmic utility function, 293, 295-96, 299, 319, 321-24, 327-28, 348; under monopoly, 79, 107-8; in multiple equilibria, 317-18, 318; nonrivalrous, 136; optimal trade interventions, 346-47, 346-47; sacrificing, to deepen capital, 15; taxes on, 358; trade-off between current and future, 41-42, 135; U. S. up to 1800, 13; utility as nonconcave function of, 329 contacts (people learning from other people), 60-61 contestability: market structure and, 119-20, 120-21, 124; multiple potential entrants, 198-200, 199 Council of Economic Advisers, 430 countercyclicality, 520-21 Cournot competition, 212-13, 234; Bertrand competition compared to, 191-96; decrease in marginal returns with number of firms, 235-36; duopolist, 191-95; equilibrium, 195; equilibrium and exclusivity, 206; equilibrium and free entry, 205-6; equilibrium and nonexclusivity, 202-5, 204; formulas, 192-95; symmetric equilibrium, 195

Cournot equilibrium, 107, 310; free entry and, 205-6; nonexclusivity and, 202-5, 204 Cournot-Nash equilibrium, 110, 116, 193, 194-95, 195 Court of Federal Claims, U. S., 441 creative destruction, 163-64; alternative formulation: patent races, 144-45, 223-32; asymmetric Bertrand equilibria and nonexclusivity, 200-202, 201; barriers to entry, 213-14; Bertrand competition and symmetric equilibrium, 198; Bertrand competition with stochastic research outcomes, 207-10, 208, 209; Bertrand equilibria and multiple potential entrants, 198-200, 199; Bertrand equilibrium, 195–96; comparison with persistent monopolist, 225-28; competitive entry and entry deterrence, 215, 215-16, 228-29, 229; Cournot duopolist, 191-95; Cournot equilibrium, 195; Cournot equilibrium and exclusivity, 206; Cournot equilibrium and free entry, 205-6; Cournot equilibrium and nonexclusivity, 202-5, 204; ex post competition, 191–95; government as deliverer of, 171; incumbent's discouraging investment in R & D, 229; intertemporal linkages, 178-79; monopoly innovator, 219-23; multiple local optimum, 187-88; multiple potential innovators, 197–98; myopic monopolist, 188– 90, 189, 196–97, 200, 314; optimal timing and size of innovation, 230-32; random cost reductions, 210–12; R & D subsidies, 197; relationship of incumbent and

innovator, 180-83; sequential and persistent monopolists, 183, 183-84; sequential monopoly, 224–25, 225; sequential monopoly equilibrium with large innovations, 186–87, 187; sequential monopoly equilibrium with small innovations, 184-86, 185, 186; socially optimal innovation, 222-23; social welfare maximization, 190-91; social welfare optimization, 232-33; strategic behavior as deterrence to competitiveness, 214-19, 215 Crick, Francis, 136 crony capitalism, 375 cross-border knowledge flows, 93 cultural and geographic localization, 65-66

cumulative learning from output, 330 currencies, overvalued, 382 Curtis, Glenn H., 434 cutthroat competition, 364-65 Czech Republic, 30–32, 31

Darwinian survival of fittest, 96–98 Dasgupta, Partha, 117, 364 data exclusivity, 436-37, 440 Debreu, Gerard, 2; Arrow-Debreu model, 16-17, 19-20, 52, 102, 142, 161-62, 490, 500 deindustrialization, 360-61, 388 demand for labor: innovation and, 172-73; productivity and, 154-55 Detragiache, Enrica, 403 developing countries. See catching-up countries development banks, 395, 411, 412 Dewatripont, Mathias, 520 Diamond, Peter A., 363–64 Diamond-Mirrlees model, 363-64 differential knowledge, 47-48 dirty technologies, 517-21; societal learning about new products, 49

disclosure requirements, patent application, 59-60, 75-76 discount rate, effects of: in entry deterrence, 217, 222; in monopoly model, 221; in N-good modle, 287, 292 diseconomies of scale, innovation and, 4, 111, 138–39, 478, 507 distortionary tax on agricultural sector, 277-79 distortion of consumption, 277 distribution of income, 158 Dixit, Avinash, 24, 311, 512 Dixit-Stiglitz model, 512 Dosi, Giovanini, 429 duopolistic competition: consumer welfare under, 107-8; duopoly equilibrium, 106-7; innovation: monopoly versus duopoly, 106-7; under monopoly versus duopoly, 107–8; Proposition 2: second-period welfare under monopoly versus duopoly, 108; Proposition 3: welfare is higher under monopoly than under duopoly, 108 dynamic comparative advantage, 25 dynamic development, 343-44 dynamic sectors learning benefit, 334-35 dynamics of adjustment, 176 dynamics of change and learning, 73-74

East Asia, 14, 18, 66; capital flows, 406; China's dominance in world market, 498; convergence to high performance level, 34; crisis in, 96, 405, 418, 491; exchange rate policy, 420, 488–89, 509; exportled strategies, 27; favoring broad barriers to trade, 396; financial restraint, 409–10; growth after

commercial reforms, 33-34; India, 34, 71, 391, 493; industrial policies, 387, 392-94, 399-400, 408, 509; institutional designs and, 395; Japan, 26, 38, 39, 66, 351, 396, 493, 509; learning and government, 388; learning potential firms, 333; learning-related trade restrictions, 389-90; Myanmar, 389-90; outward-bound investment, 423-24; quality of life, 30-32, 31; restricted capital outflow, 407; state subsidies and product market competition, 497-98; Taiwan, 30–32, *31*, 396; tariffs and nontariff barriers, 509; Thailand, 30–32, *31*, 406–7; Vietnam, 32, 34; Washington Consensus policies, 481. See also specific country The East Asian Miracle (World Bank), Eastern Europe, 33–34 eBay Inc. v. MercExchange, L.L.C., 434, 435 economics of information, 131-32 Edison, Thomas, 84 education: cross-border knowledge flows, 93; as distinguishing feature of modern era, 13-28; economics of information, 131–32; as investment, 79; learning mindset, 9, 48, 57, 61-63, 457-59, 472; learning to learn, 50–51, 53, 66; net learning with foreign direct investment, 42; one-sizefits-all, 375-76; optimal learning with lump sum taxation, 301-4; optimal resource allocation for, 137; private and social value of, 137; productivity growth rate from improved, 37-38; regulations impacting, 50; strategies, 68-70; underinvestment in, 55, 104, 438

EEC. See European Economic Community Emran, Shahe, 411 endogenous growth theory, 1-3, 15-16 endogenous labor supply: twoperiod, N-good model with, 289-95; two-period, N-good model with, lump sum taxation, 301–4; two-period, N-good model with, no lump sum taxes, 306-7; twoperiod, N-good model with, price interpretation, 295-97; two-period, N-good model with, symmetric equilibrium case, 297-30I endogenous learning analysis, 473, endogenous technology, 16–17, 131-32; rationale for, 2-5 the Enlightenment, 62, 70, 73-74; learning economy and, 62, 70, 73-74 entertainment industry, 429–30 entrant versus incumbent, in R & D, 121-22; multiple potential entrants, 198-200 The Entrepreneurial State: Debunking Public vs. Private Sector Myths (Mazzucato), 445 entrepreneurship, 411–12, 513–14 entry: Cournot equilibrium and free entry, 205-6; creative destruction, 213–14; effect on innovation, 254–59, 255, 258; limiting impact of, 217-19; multiple potential entrants, 198-200; Stiglitz on free entry and market equilibrium, 311 entry deterrence: formulas for, 215, 215-16, 228-29, 229; intellectual property rights and, 432, 437; limits on, 216-17; market structure and, 120; strategic behavior as

deterrence to competitiveness, 214-19, 215 envelope theorem, 358 equilibrium fiction, 71, 73, 75, 460, 465-66, 471, 481; monopoly equilibrium formulation, 105–6 Estonia, 30–32, 31 ethanol development, 388 E. U. See European Union eureka moment, 52 Europe: dense infrastructure, 7; early standard of living, 13–14; Everything But Arms initiative, 383; G₂ countries, 37–38, 39; government-funded research, 444-45; infant-industry argument, 332; laissez-faire policies, 495; patent opposition, 442-43; protectionism, 508; quality of life, 30-32, 31; social mobility, 469–70; trade policy structure, 8; U. S. productivity growth rate compared to, 38; WTO restrictions in, 384. See also specific country European Economic Community (EEC), 396 European Union (E. U.), 8 evergreening and data exclusivity, 436-37, 440 evergreen patents, 440 Everything But Arms initiative, 383 evolutionary dynamics, 86, 86 evolutionary selection: creative destruction, 163-64; Darwinian survival of fittest, 96-98; inefficiencies inherent in, 161-64 excessive unemployment, 151-59, 152, exchange rates: in Africa, 418; Asian countries' export promotion, 509; changes in, 359-60, 362, 476; China's, 420, 488–89;

in East Asia, 420, 488–89, 509; financial market policies, 8, 354–58, 359–60, 362, 420, 476; intervention in nontraded sector, 354–58; in learning society, 417–20; U. S., 420 export-import bank, 408 ex post competition: creative destruction and, 191–95; incentives and, 235–36 externalities: entrepreneurship and learning, 411–12, 513–14; information, 402–3, 475; knowledge, as central to learning society, 238–39; learning, 135–36; negative and positive, 20–21

factor endowments, 24-26, 66 FDI. See foreign direct investment fiber optics, 71 financial policy: broader financial sector policies and, 412, 476; capital access, 401; capital controls, 405; capital outflows, 407; capital standard theory failure, 406; development banks, 395, 411, 412; The East Asian Miracle, 394; entrepreneurship and learning externalities, 411-12, 513-14; export-import bank, 408; finance and industrial policy, 402, 408-12; financial market, 402-5, 407, 414-17, 475, 477; foreign banks advantage, 404; foreign financial services restrictions and, 412; funds diversion, 405-6; government and industrial policy, 408; government-run institutions, 412; government's key objective, 402; IMF rescue package, 406-7; infant-economy argument for protection, 404, 476; information externalities, 402-3, 475; International Monetary

Fund and, 405; labor movement restrictions, 402, 412-13; learning sectors and, 408; macro-instability and, 401; migration and, 413; mixed systems in, 411; regulatory banking, 409; regulatory policies and flow of funds, 410-11; Thailand's adverse effects, 406-7; U. S. banking and, 404–5; venture capital firms and, 408; World Bank, 394, 447, 489, 491, 500, 510 financial restraint, 409-10 financial sector, 476; 2008 global crisis, 42, 96, 151, 372, 405, 418, 491, 495; development of robust, 94-95, 402, 409-10; financial policy, 402-5, 407, 414-17, 475, 477; industrial policy and, 402, 408-12; liberalization justifications, 403-4. See also financial policy; infant-industry/ economy argument Financial Services Agreement, 23 Fink, Carsten, 429 Finland, 30-32, 31 firms: ability to support R & D, 93; concentration and diffusion of knowledge across, 91; concentration and diffusion of knowledge across firms, 92; decrease in marginal returns with number of, 235-36; design of, 89-90; East Asian learning potential firms, 333; entrepreneurship, 411-12, 513-14; geographical localization, 95-99; industrial firms as source of innovation, 90-93; innovative, 89-90; profit-maximization, 249-50; spillovers to rest of economy, 93-95; stability promoting dissemination of knowledge, 91, 319-32; venture capital, 408

First Annual Arrow Lecture, 485-87 fixed labor supply, no lump sum taxation, two sectors, 324-26 Florida, 404-5 follow-on innovation, 432-33, 451 Ford, Henry, 82 foreign banks' advantage, 404; restrictions on, 412 foreign direct investment (FDI), 40-41, 66, 420, 477; Africa's, 422; China's, 507; government subsidies to promote, 423; Japan and, 421; Korea's, 421; Malaysia and, 423 France: Colbertist policy, 509; G₇ countries productivity growth comparison, 39; opposing government intervention, 510 Frankel, Jeffrey A., 493 free trade: equilibrium, 339, 342; financial market liberalization, 402-5, 407, 414-17, 475, 477; knowledge as free good, 507; learning and, 54–55; in learning economy, 54-55; possibilities curve, 339, 342; Schumpeter on, 101-2; utility value and autarky, 340, 340-41, 345; Washington Consensus, 23, 80, 374-75, 402, 405, 481, 493, 509–10. See also liberalization; trade policies the Frontier, 40–43, 92 funds diversion, 405-6

G₇ countries, 37–38; productivity growth comparison, 39 Gates Foundation, 447 GDP. See gross domestic product geographic and cultural localization, 65–66 Georgia, 404–5 Germany: factor endowments, 24; G_z countries productivity growth comparison, 39; industrialization strategy, 27; manufacturing value chain, 495; opposing government intervention, 510 global environment: 2008 global financial crisis, 42, 96, 151, 372, 405, 418, 491, 495; clean versus dirty technologies, 517-21; imbalances in production, 361-62, 501–2; learning economy benefits, 61; McKinsey Global Institute, 501-2; modern science on climate change, 62; societal learning about new products, 49; WCED, 442 GNP. See gross national product Google, 71 government intervention, 4-5, 9, 98-99, 481; aggressive protection and subsidies, 389, 511; arguments for, 42-43; banking and financial policy, 404–5; Brazil's aircraft industry, 502-3; Brazil's ethanol industry, 388; carbon tax, 517-21; in catching-up countries, 333-34, 509–21; clean innovation subsidy, 517-21; climate change, 495, 517–21; closed economy, 265, 476; countercyclicality and, 520-21; to create learning economy, 87, 479; to create learning society, 404, 476; criticisms of, 489, 511–12; delayed intervention impacting consumption, 518; development banks, 395, 411, 412; economy during World War II, 37–38; encouragement of learning sector, 272; evidence-based general theory of growth and employment, 160-61; in financial policy, 404, 476; -funded research, 444–45;

funding R & D, 334, 444-45, 453; incentives, 335-36; in industrial policy, 494-95; intellectual property rights, 441, 444-45; international trade agreements, 354-55; key objective: learning society, 402; Korea's, 338–39, 338–40; macroinstability requiring, 96-97; Office of Science and Technology Policy, 430; policy, 408; to promote learning society, 6, 15–16, 20–22; R & D funding, 334, 444-45, 453; redirecting technical change, 516-19, 518; responsibility in learning revolution, 21-22; role in learning revolution, 20-24; social benefits from, 336; support of industrial sector, 362-63; two-sector model, 316–17; value of learning, 357-58, 479; welfare-enhancing intervention, 311; welfare policies, 311, 318. See also financial policy; industrial policy; infant-industry/ economy argument

government policies on innovation: competition laws and policies, 171; complementarity between private sector and, 517; as deliverer of Schumpeterian creative destruction, 171; -funded R & D, 444–45; investment in learning, 424–26; patents use by, 441; responsibility for learning society, 21

Grandstrand, Ove, 429
Great Depression: capitalism's recessions and depressions, 40; role of innovation in precipitating, 150; Schumpeter on, 98; Schumpeter's writings following, 101–2; Smoot-Hawley Tariff and, 508. See also capitalism

Great Recession, 392 Greenwald, Bruce, 486, 499, 503, 504, 505, 506, 507 Greenwald-Stiglitz program, 501, 511 Griliches, Zvi, 507 gross domestic product (GDP), 406, 470; industry-level tariffskill interaction, 512; influence of investment in capital and people, 40; innovation's contribution to, 136; movement toward frontier impacting, 40; Nunn and Trefler's regression results, 512; in Schumpeterian competition, 169-72; three ways of increasing, 40-4I

Grossman, Sanford, 78 gross national product (GNP), 41 guaranteed purchase fund, 447 Gupta, Poonam, 403

Habakkuk, H. J., 158 Hamilton, Alexander, 508 Harberger, Arnold C., 40 Harbergerian analysis., 346 Hausmann, Ricardo, 513, 515–16 Heckscher, Eli, 503 Hemous, David, 520 Henry, Claude, 429 Hidalgo, Cesar A., 65 history, localized technical, 67-68, 68, 391 Hoff, Karla, 71, 457, 459-60 holdups: patent trolls and, 435-36, 451, 454; in Schumpeterian competition, 146 homotheticity, constant elasticity and, 358 Hoover, Herbert, 98 horizontal linkages, 387 Howitt, Peter, 179-80, 227, 234 hybrid corn, 507

ideological commitment, 73 IMF. See International Monetary Fund import-export bank, 408 import restrictions, 511 incentives to innovation, 335-36; advancement of knowledge, 136, 444-45, 448; ex post competition and, 235-36; IPR and distorted, 436; knowledge and peer recognition, 448; for learning's sake, 75-76; mispricing and perverse, 438; to motivate managers, 123; nonpecuniary intrinsic, 48; patents distortion of, 451; patent system versus incentive for innovation, 437, 451; prize system, 445–47; R & D and increased, 443–44. See also government intervention India: commercial reforms, 34; fiber optics investment, 71; industrial policy, 391; trade liberalization, industrial niches, 512-16 industrial policy: 2008 global financial crisis, 42, 96, 151, 372, 405, 418, 491, 495; African countries', 399-400; aftermath of WWII, 492-93; based on correcting market failures and creating learning society, 393-94; China's, 391, 495; climate change and, 495, 517-21; closing of knowledge gaps, 44-46, 70, 360-61, 372-73, 481, 501; counterarguments to interventionism, 495-96; countercyclicality and, 520-21; design and governance of, 496-98; distinctive circumstances of catching-up countries,

376-78; East Asian countries, 393-94, 399-400, 408; finance and government, 402, 408-12; focus of, 337, 480; governance and institutional reform, 394-96; government support of, 362-63; Great Recession, 392; historical experiences with trade interventions, 389-90; history as proof of workability of, 67–68, 68, 391; India's, 391; inequality, 380-83; inevitability of, 371-72; infant-economy argument for protection, 494–95; infant-industry argument for catching-up countries, 510, 511; instruments of, 372; Japan's, 493; Korea's, 340, 388-89, 398-400; Latin American, 390-91; liberalization, 397; making most of natural resources, 371, 385–87; methodological response to political economy critique, 396-97; need for, 369-70; neighboring sectors' experimentation, 513–16; objectives of, 378-79; one-sizefits-all policies, 375-76; optimal subsidy, 276-77; political economy and, 391-97; reasons why markets by themselves do not create learning economy, 370; redirecting technical change, 516–19, 518; Romer's productvariety model, 512-13; sectoral intervention, 510–16; shift in focus of, 509-10; of special importance for catching-up countries, 372-78; strategies, 398-99; structural adjustment policies stifling growth, 373-74; structural transformation, 379; tariff-skill interaction term, 512; theory

of Second Best, 397–98; trade policy, 381-85; unemployment from, 151-59, 152, 154, 155, 379; U. S., 387–88, 493; in war time, 390; Washington Consensus, 23, 80, 374-75, 402, 405, 481, 493, 509-10 industrial sector, size of, 343-44 industrial subsidy, optimal, 276-77 industry-level tariff-skill interaction term, 512 infant-economy argument, 265, 476 infant-industry/economy argument: aggressive protection and subsidies, 389, 511; Brazil's aircraft industry, 502-3; catching-up countries and, 333-34, 500-501, 510-11; closed economy, 265, 476; criticisms of, 489, 511-12; Europe and, 332; in financial policy, 404, 476; in industrial policy, 494-95; as infant-economy argument, 4-5, 9, 336, 336-37, 337, 341; Korea's example, 338–39, 338–40; in learning society, 404, 476; never growing up as criticism of, 332; rate of learning, 350-51; recent empirical findings, 510-16; summation of, 511-12 information externalities, 402-3, 475 innovation: adverse effect on future innovation, 237; alternative systems comparison of, 449; Arrow-Debreu assuming away of, 19-20; bureaucracy and, 84-85, 85; capitalism's emphasis on, 57; as central to modern economy, 2; clean innovation subsidy, 517-21; compensation systems,

curve for labor, 172-73; demand for labor, 172-73; determinants in pace of, 438-39; economics of information, 131-32; effect of entry on, 254-59, 255, 258; -efficiency in learning revolution, 19; endogenous market structure, 125-26, 481; endogenous technology, 2-5, 16-17, 131-32; enhancement of individual and societal well-being, 169-72; eureka moment, 52; excessive unemployment and, 151-59, 152, 154, 155; finite term models, 319; follow-on, 432-33, 451; industrial firms as source of, 90-93; inefficient processes of, 143-49, 230-32; knowledge dissemination and, 453; labor-augmenting versus labor-saving, 164-65; labor scarcity as inducement to, 159; learning society's system for, 428; long-run dynamics and factorbiased technological progress, 173–78, 176; market structure and, 104-5, 279-81, 280; market structure impacting consumer welfare and, 279-81, 280; Microsoft's predatory behavior, 116-17, 432-33; monopoly and competitive structures, 475; monopoly innovator, 219-23; in monopoly versus duopoly, 106-7; nature of society and, 164-65; new knowledge as public good, 135-37; patent law impedes, 59, 75, 433-36, 476; patent races and limited innovation, 120-21, 124, 430; patent system versus incentive for, 437, 451; patent thickets obstacles to, 434; portfolio approach to, 448-53, 449;

123; competition intensity,

110-13; competition link, 103, 478;

conditions which lower demand

innovation (continued)

pro-innovation regimes for IPR, 259-61, 260; returns from, 438; second-period consumer welfare, 79, 107-8; selection attribute, 448; sequential monopoly equilibrium: large innovations, 186-87, 187; sequential monopoly equilibrium: small innovations, 184-86, 185, 186; socially optimal, 222-23; socially unproductive, 149-61; social value of, 112; successive monopolist, small innovations, 183, 183-84; underinvestment in, 438; welfare results from, 126, 430. See also rents; Schumpeterian competition; technology/ technological progress innovation process, inefficient, 143-49, 230-32

innovators and inventors, 82–84, *8*3, 219–20

intellectual property rights (IPR): adverse effects of, 456; alternative systems comparison, 449; ambiguous boundaries of, 433–34; analysis implications of, 456; better (pro-innovation) regimes for, 259-61, 260; BlackBerry suit, 435; changes in, 440; channels of learning and, 455-56; circumventing patents, 437; common resources problem, 240, 240-46, 241, 242, 243, 244, 246; compulsory licenses for, 442-43, 455; developmentoriented, 454; diagrammatic exposition of tighter, 254-57, 255; distorted incentives in, 436; distortions in, 430–31; eBay Inc. v. MercExchange, L.L.C., 435; economic development

and, 454-56; effect of entry on innovation, 254-59, 255, 258; effect of tighter, 251-54, 252; enclosure of commons, 145–46, 433, 451; as enclosure of intangible commons of mind, 238; equilibrium knowledge pool, 252; evergreening and data exclusivity, 436-37, 440; finance and, 450-51; fishing from renewable common resource pool, 238; government, 441; government-funded research alternative, 444-45; guaranteed purchase fund, 447; holdups and patent trolls, 435-36, 451, 454; impact on R & D, 254–59, 255, 258; innovation and welfare results, 430-31; International Trade Commission and, 435–36; knowledge dissemination and, 453; knowledge externalities as central to learning society, 238-39; knowledge pool and, 438-39; learning and, 429-31; learning design promotion, 443–44; in learning economy, 48, 54, 59, 75; liability system and, 455; limitations on, 442; litigation risks, 433–34; mathematical advances without, 444; mispricing and perverse incentives, 438; monopoly pricing impact on poor, 450-51; monopoly profits and power, 446; national innovation system, 444-53, 476; opensource movement alternative, 445; ownership issues, 30; patent system, 440-41; patent thickets, 434, 454; prize system alternative to, 445-47, 453; regime details, 439-40; restricted

access and knowledge, 59, 75, 431, 446; secrecy, 433; social and private returns, 430-31; socially unproductive patent races, 438; system reformation of, 439-44, 476; trade-offs in, 454; trade secrets and first-mover advantage, 444, 447; traditional knowledge patents, 437; transaction costs, 452-53; in U. S., 430; World Intellectual Property Organization, 59, 454 International Commission on the Measurement of Economic Performance and Social Progress, 470-7I

International Monetary Fund (IMF), 405, 489; industrial policy and inequality, 380–83; rescue package, 406–7; structural adjustment policies stifling growth, 373–74 international trade agreements, 354–55 International Trade Commission,

Internet, 54, 445; Google, 71; information relevance, 55; Internet Explorer, 117; Mozilla Firefox, 117; Netscape, 117 investment climate, 509–10 invisible hand notion, 18–19 IPR. *See* intellectual property rights Italy: G₇ countries productivity

growth comparison, 39; no trade

Jaffe, Adam, 429 Japan: automobile productivity, 351; changing demographics, 58; dense infrastructure, 7; dynamic comparative advantage, 26; export promotion, 493, 509; favoring broad barriers to trade, 396; FDI and, 421; G₇ countries productivity growth comparison, 39; industrial development strategies, 423; industrial policy, 493, 495; learning how to learn, 66; production possibility frontier, 34; trade policy structure, 8; U. S. productivity growth compared to, 38

Jobs, Steve, 84

Kaldor, Nicholas, 43 Keller, Wolfgang, 493 Kharroubi, Enisse, 520 Klinger, Bailey, 513, 515–16 knife-edge equilibrium, 116 Knight, Frank, 71 knowledge: access, 58-59; capital, 17, 79; as catalyst, 48; concentration and diffusion across firms, 91; cross-border knowledge flows, 93; dissemination structure, 267; distinctive properties of, 135-41; economics of information. 131–32; as free good, 507; impediments to transmission, 74–75; as incentive for R & D, 448; inflows and outflows, 248-49; localization of, 6; longrun dynamics and factor-biased technological progress, 173-78, 176; new, as public good, 135-37; patents: restricted access and, 59, 75, 431, 446, 476; private rewards and social returns, 143-44; as public good and learning externalities, 135-36; trade-offs, 78-79; transmission, 48. See also learning; research and development; technology

barriers, 383

435-36

knowledge dissemination, 490; firms' stability promoting, 91, 319–32; impediments to transmission, 74–75; innovation and, 453; intellectual property rights and, 453; structure in closed economy, 267

knowledge gaps: equilibrium, 45–46; between industrialized and catching-up countries, 44–45, 70, 360–61, 372–73, 481; performance gaps and, 501

knowledge pools: equilibrium, 252; government- and universityfunded research adding to, 246–47, 247; profit-maximizing R & D, 249–50; solving for steadystate value of, 251; steady state: knowledge inflows and outflows, 248–49

knowledge trade-offs, 78–79 knowledge transmission: in closed economy, 267; in dynamic learning society, 48; impediments to, 74–75; intellectual property rights and, 48, 453

Korea: 2008 crisis effect on, 96; export promotion, 493, 509; favoring broad barriers to trade, 396; FDI and, 421; history matters, 385; industrial policy, 387-89, 392, 398-400; industrial protection and, 340; industrial strategies, 398-99, 423; learning how to learn, 66; quality of life, 30-32, 31; quota autarky, 340-41; static comparative advantage, 338-39, 338-40, 363, 489; static versus dynamic comparative advantage, 25-27; structural transformation, 489 Krueger, Anne O., 508

Krugman, Paul, 24 Krugman-Dixit-Stiglitz model, 24 Kuznets, Simon, 504

labor: basic intuitions and results, 287-89; conditions in which innovation lowers demand curve for labor, 172-73; conditions which lower demand curve for, 287-89; demand curve for labor, 172-73; elasticity of, 287, 289; fixed labor supply, no lump sum taxation, two sectors, 324-26; impact on equilibrium unemployment, 154, 154-55; labor scarcity as inducement to innovation, 159; labor supply elasticity, 314–15, 318; learning by trade, 54-55; monopoly power and wages, 266; movement restrictions, 402, 412-13; scarcity of, as inducement to innovation, 159; in Shapiro-Stiglitz model, 154–56, 155; unemployment and, 151–59, 152, 154, 155, 379. See also learning by doing

labor-augmenting innovation:
Shapiro-Stiglitz model, 154–56, 155
labor-augmenting versus laborsaving innovation, 164–65
labor movement restrictions, 402,
412–13

Latin America: convergence to high performance level, 34; financial market liberalization, 403–4; immigration laws and growth, 413; import substitution policies, 493, 509; industrial policy, 390–91; lending example, 123; macroeconomic policies failure, 392; production possibility frontier, 34. See also specific country

Latvia, 30–32, 31 learning: capabilities, 57-58, 65, 474; channels of, 455–56; concentration and diffusion of knowledge across firms, 92; costs of, 274; cross-border knowledge flows, 93; cumulative learning from output, 330; determinants of, 56-57; as distinguishing feature of modern era, 13-28; economics of information, 131-32; elasticity of, 267, 277, 282, 288, 290, 292, 296, 302, 307-8, 324, 330; elasticity of demand, 277; elasticity of substitution, 279; exogenous, 39; free trade and, 54-55; as investment, 79; to learn, 50-51, 53, 66; lifetime education, 56-57; market distortions, 312; mindset, 9, 48, 57, 61–63, 457–59, 472; natural resource production, 385; negative and positive externalities, 20-21; net, with foreign direct investment, 42; one-size-fits-all policies, 375-76; optimal learning with lump sum taxation, 301-4; optimal resource allocations with, 137; from others, 53-54; patents impeding, 59, 75, 433-36, 476; private and social value of, 137; productivity growth rate from improved, 37-38; rate of, 350-51; regulations impacting, 50; social value and private value of, 137; societal, 49, 57, 459; spillovers, 63-65, 76, 323-28, 335-36; strategies, 68-70; through trade, 361; two aspects of, 29-30; underinvestment in, 55, 104, 438. See also learning firms

learning architecture, 57 learning by doing: advantages of incumbency and deterrence, 214; Arrow's paper on, 2–3; costly for catching-up countries, 511; extended concept of, 6; future versus today's costs of production and, 108; labor supply elasticity and, 289; learning by trade, 54-55; learning from others, 53–54; learning to learn by learning, 50-51, 53, 66; technology and learning processes, 55-56; today's production as benefits for future, 265–66. See also catching-up countries; infant-industry/ economy argument learning economy: age structure and, 58; appropriability in, 76-77; belief systems and social constructs, 71-72, 74, 481; biased perceptions, 70-71; bureaucracy and innovation, 84-85, 85; catalysts in, 59-60; for catching-up countries, 51; cognitive frames for, 61-62, 72-74; cognitive impediments to, 73; comparative advantages of, 49; contacts in, 60-61; conventional economic theory implications, 66–67; determinants of learning, 56-57; differential knowledge in, 47-48; dynamics of, 73-74; economic systems mobility, 61, 99-100; the Enlightenment and, 62, 70, 73-74; equilibrium fiction, 71, 73, 75, 481; evolutionary dynamics, 86, 86; foreign direct investment, 66, 477; free trade and learning, 54-55; geographic and cultural localization, 65-66; globalization

learning architecture (continued) benefits, 61; government intervention, 87, 479; history as proof of workability, 67-68, 68, 391; ideological commitment and, 73; innovators and inventors, 82-84, 83, 219-20; institutional and societal rigidities, 72-73; institutional spillovers, 64-65; intellectual property rights and, 48, 54, 59, 75; intertemporal trade-offs, 79-81; investments and learning, 52; key ideas about, 477-79; knowledge access, 58-59; knowledge gaps, 44-46, 70, 360-61, 372-73, 481, 501; knowledge trade-offs, 78-79; knowledge transmission, 48; knowledge transmission impediments, 74-75; learning and regulations, 50; learning architecture, 57; learning capabilities, 57-58, 65, 474; learning from others, 53-54; learning spillovers, 65; learning strategies, 68-70; learning to learn, 50-51, 53, 66; lifetime education of, 56, 57; localized learning theory, 64–65, 69; modern growth policy and theory, 80; motivation for, 75-76; new production methods as catalyst for, 52-53; new technologies in, 55-56; nonpecuniary intrinsic incentives, 48; openness and mobility, 54, 61, 99-100, 468-70, 472; opensource movement, 59, 74; patent law impedes, 59, 75, 433-36, 476; production methods spillovers, 64; resource allocation, 67; savings rate case, 79; secrecy and, 75, 77; short-run versus long-run

trade-offs, 80, 479-80; societal learning, 49, 57, 459; spillovers, 63-65, 76; standard of living and, 482; static inefficiencies versus dynamic gains, 79-81; structure of, 53-54; technology and, 55-56; trade restrictions and, 55. See also learning by doing learning environment, 62-63, 332, 336-41, 360, 476 learning firms: ability to support R & D, 93; concentration and diffusion of knowledge across firms, 92; design of, 89–90; development of robust financial sector from, 94-95; entrepreneurship, 411-12, 513-14; geographical localization, 95-99; industrial firms as source of innovation, 90-93; innovative, 89–90; learning and boundaries of, 88-89; role of stability and continuity, 91, 319-32; spillovers to rest of economy, 93-95; venture capital, 408 learning instruments, 488–89 learning revolution, 474; advances in, 17; analyzing inefficiencies, 20; Arrow-Debreu model, 16–17, 19-20, 52, 102, 104, 401, 473, 490, 500; capital accumulation versus learning, 17; classical policy prescriptions, 22; dynamic comparative advantage, 25; economics of learning processes, 16-17; endogenous growth theory, 1-3, 15-16; factor endowments, 24-26, 66; governmental responsibility, 21–22; government role, 20-24; history of, 13-14; innovation efficiency, 19; interventions, 21, 23-24; invisible

hand notion of, 18-19; knowledge capital, 17, 79; learning perspective, 27-28; learning societies and, 18; market inefficiency, 18-20; objective of economic policy, 15; pace of, 15; policy reassessment, 22–23; property rights institutions role, 23; redefined comparative advantage theory, 24-28; Schumpeterian competition, 22; significance of transformations, 14; source of transformations, 14; standard economic analysis, 26-27; successful economies, 17-18; tacit knowledge, 25-26 learning sector subsidy, 282 learning society, 9; broader financial sector policies and, 412, 476; capital access in, 401; capital controls in, 405; capital market liberalization, 402-5, 407, 414-17, 475, 477; capital outflows, 407; capital standard theory failure, 406; changes in perceptions and beliefs, 464-66; cumulative learning from output, 330; democracy and creation of, 466-70; development banks, 395, 411, 412; economic policy to create, 15-16; education and social protection, 427; entrepreneurship and learning externalities, 411-12, 513-14; exchange rate policy, 417-20; finance and industrial policy, 402, 408-12; financial restraint, 409-10; foreign banks advantage, 404; foreign direct investment, 420-23; foreign financial services restrictions and, 412; funds diversion in, 405-6; general approach to societal evolution, 459; geographical

localization, 95-99; government and industrial policy creating, 408; government investment in, 424–26; government policy key objective for, 402; government subsidies for FDI to promote, 423; IMF rescue package, 406–7; infant-economy argument for protection, 404, 476; information externalities, 402-3, 475; innovation system, 428; International Monetary Fund and, 405; investment policies, 420-23; labor movement restrictions, 402, 412-13; learning sectors and, 408; legal frameworks, 427-28; macro-instability versus, 401; migration and, 413; mixed systems in, 411; need for inclusive growth, 467-68; outward-bound investment, 423-24; persistence of socially dysfunctional beliefs, 462-63; political economy of inclusiveness and openness, 54, 61, 99-100, 468-70, 472; reasons why markets by themselves do not create, 370; regulatory banking, 409; regulatory policies and flow of funds, 410-11; social transformation into, 457-59; Thailand's adverse effects, 406–7; theory of equilibrium beliefs, 459-62; U. S. banking and, 404-5; venture capital firms and, 408 learning theory, localized, 64-65, 69 Legros, Patrick, 520 Lerner, Josh, 429 liberalization: financial market, 402-5, 407, 414–17, 475, 477; industrial policy, 397; trade policy, 361; Washington Consensus, 23, 80, 374-75, 402, 405, 481, 493, 509-10

life insurance companies, 35, 35 lifetime learning, 56–57 limiting impact of entry, 217-19 Lin, Justin, 24 Lincoln, Abraham, 503 List, Friedrich, 508 Lithuania, 30-32, 31 localized learning, 64-65, 69 logarithmic utility function, 293, 295-96, 299, 319, 321-24, 327-28, 348; properties of, 319 long-run dynamics and factor-biased technological progress, 173-77, 176 long-term growth learning models: asymmetric equilibria and advantages of specialization, 328-30, 329; cumulative experience, 326-28; cumulative learning from output, 330; fixed labor supply, no lump sum taxation, two sectors, 324-26 Louisiana, 404-5 Lucas, Robert E, Jr., 513 lump sum taxation: closed economy, 267, 273-74, 277, 279, 282; fixed labor supply, two sectors, 324-26; subsidy and, 315–16; two-period, N-good model with endogenous labor supply, 301-4, 306-7 lump sum tax subsidy, 315-16 Lundvall, Bengt-Åke, 429

MacCready, Paul, 51
macroeconomic environment: 2008
global financial crisis, 42, 96, 151,
372, 405, 418, 491, 495; episodes
of rapid productivity increases,
37–38; investment climate,
509–10; learning impacted by, 63;
perspectives on, 30–34
macroeconomic growth models,
16–17

Malaysia: electronics industry, 503; FDI in, 423; resource extraction, managerial capitalism, 478 market efficiency: Arrow and Sokolo on understanding, 1-3, 8, 10; financial restraint, 409-10; human well-being from learning society versus, 18-20; market mobility versus, 99-100 market equilibrium: Arrow on, 1–2, 19-20; Pareto inefficiency, 41, 126, 141-42, 161, 266, 311, 474, 480 market imperfections, 267-68 market investment, 166-67; model of, 283–84 market mobility, inefficiency of, 99-100 market structure: alternative technology, 122; analytics for, 117–19; Bertrand price-competition model, 103, 110-12, 116, 119; compensation systems, 123; competition and innovation link, 103, 124; competition and pace of innovation (parametric model), 127–29, 130; competition intensity and innovation efficiency, 110-13; contestability and, 119-20; contest problems in, 120-21, 124; Cournot competition versus Bertrand, 112-13; duopoly equilibrium, 106–7; endogenous, 125-26, 481; entrant versus incumbent in R & D, 121–22; entry deterrence, 120; innovation and, 279-81, 280; innovation with monopoly and duopoly, 106–7; knife-edge equilibrium, 116; level of innovation and, 103-5; monopolies, 102, 124-25; monopoly equilibrium, 105–6;

Mirrlees, James, 363-64

monopoly power as temporary, 116–17; monopoly versus duopoly, 104-5, 108, 117-18, 124; Nalebuff-Stiglitz analysis, 120-21, 123; Nash-Cournot equilibrium, 110, 116, 193, 194-95, 195; patent races and limited innovation, 120-21, 124; patent races competition and innovation rate, 113-15; perfect spillovers, 108-9; relationship between competition, innovation, and welfare, 123-24; Sah-Stiglitz invariance theorem, 110; Schumpeterian competition, 101–3, 115; Stackleberg equilibrium, 117-18; standard competitive theory, 102; standard innovation (patent) race, 103; standard learning model, 103; welfare and innovation results, 126; welfare under monopoly and duopoly, 107-8; X-inefficiency among, 122, 125 Marshall, Alfred, 507 Marxism, naive, 73 Maskus, Keith E., 429 Mazzucato, Mariana, 445 McKinsey Global Institute, 501-2 Medicare, 450 Mellon, Andrew, 98 me-too innovations, 143-44 Mian, Atif, 403 Micco, Alejandro, 403 microeconomic environment, 34-36 Microsoft, 91, 116–17, 432–33; patent use, 432, 433, 437, 442 middle Europe, 30–32, *31* migration, 413 mindset: ideological commitment, 73; learning, 9, 48, 57, 61–63, 457-59; valuing transparency and openness, 54, 61, 99-100, 468-70, 472

Mississippi, 404–5 Mitchell, Wesley Clair, 504 mobility: as catalyst for learning, 78, 92; openness and, 54, 61, 468-70, 472 model farms, 54 modern growth policy and theory, monopolist demand and marginal revenue schedule, 183 monopolistic competition: absence of learning effects, 311; behavior of monopolist, 312-13; duopolist versus, 109-10; elasticity of demand, 312, 318; elasticity of productivity, 312; enclosure of commons, 145-46, 238, 433, 451; example of Myriad Genetics, 145; government intervention two-sector model, 316–17; labor supply elasticity, 314-15, 318; lump sum tax subsidy and, 315-16; market distortion, 313; market structure, 102, 124-25; monopoly outcome versus competitive outcome, 313-15; monopoly power as temporary, 116–17; monopoly versus duopoly, 104-5, 108, 117-18, 124; multiple rational expectations equilibria, 317-18, 318; myopic monopolist, 188-90, 189, 196-97, 200, 314; myopic versus nonmyopic, 314; oligopolistic versus, 138-41; perfect competition compared to, 139-40, 140; persistent myopic monopolist, 188–90, 189, 196–97, 200; power and wages, 266; pricing and, 450-51; private rewards and social returns, 143-44; second-period consumer

monopolistic competition (continued) welfare, 79, 107-8; sequential monopoly, 184-90, 185, 186, 187, 196-97, 200, 224-25, 225; tax and subsidy policies, 311-15; tax and subsidy policies in, 311-15; welfare, 108, 281-82; welfare-enhancing government intervention, 311 monopoly: equilibrium formulation, 105-6; multiple local optimum, 187-88, 189; myopic monopolist, 188-90, 189, 196-97, 200, 314; sequential, 184–90, 185, 186, 187, 196–97, 200, 224–25, 225; sequential and persistent, 183, 183-84; tax, 149-450, 311-15; welfare calculations, 281-82 monopoly innovator, 219; constrained monopolist, 220-21; contestability, 221-22; socially optimal innovation, 222–23 Mozilla Firefox, 117 multiple equilibria, 83, 85, 85, 354, 354, 475, 480; catching-up countries, 360-61; consumption in, 317-18, multiple potential entrants, 198–200, multiple potential innovators, 197-98 Myanmar, 389–90 myopic monopolist, 188-90, 189, 196-97, 200, 314 Myrdal, Gunnar, 458–59 Myriad, 145, 438 Nalebuff, Barry J, 120–21

Nalebuff, Barry J, 120–21 Nalebuff-Stiglitz analysis, 120–21, 123 Nash-Cournot equilibrium, 110, 116, 193, 194–95, 195 Nash equilibrium, 54, 100, 110, 200, 241, 241, 265–66; investment in R& D, 254–55; in persisting

beliefs, 465-66. See also creative destruction National Business Survey, 497-98 natural resources, 240-46; availability of, 502; effect of improved investment environment, 243; few spillovers from, 422; fish, 240, 240-42, 241, 242; increased competition, 244; making most of, 371, 385–87; optimal resource allocation, 137; regulation of, 246; underpricing of, 171, 377. See also common resources problem negative and positive externalities, 20 - 21Nelson, Richard, 505 neoclassical model: beliefs and social constructs arising from, 71-72, 74, 460–63, 481; counterproductive policies arising from, 458, 474; on distribution of income, 158; learning society compared to, 47; postcolonial era trade policies, 386; Schumpeter's critique of, 22; Washington Consensus reliance on, 23, 80, 374-75, 402, 405, 481, 493, 509-IO Netscape, 117 New England Telephone, 36 Newton, Isaac, 58 New York Telephone, 36 niches, industrial, 512–16 nonexcludability property, 136–37 nonpecuniary intrinsic incentives, 48 nonrivalrous consumption, 136-37 non-steady-state analysis, 358-60. See also steady-state Nordhaus, William D., 17 Nordic welfare model, 364-66 North Carolina, 404-5

North Korea, 30–32, 31. See also Korea

Northwestern Mutual life insurance company, 35, 35 Nunn, Nathan, 496–98, 512

OECD. See Organisation for Economic Co-operation and Development Office of Science and Technology Policy, 430 Ohio Valley, 52 Ohlin, Bertil, 503 oligopoly, 109, 115, 336, 405; monopoly versus, 138-41 open-source projects/movement, 74; access and knowledge, 59, 75, 431, 446; as IPR alternative, 445; mobility and, 54, 61, 99-100, 468-70, 472 optimal interventions, 274–79 optimal resource allocation, 137 optimal tax intervention rewrite, 276 optimal timing: in sequential monopoly, 224-25, 225; size of innovation and, 230-32 Organisation for Economic Cooperation and Development (OECD), 520 organization, continuity of, 91 overinvestment, in speed, 235 overvalued currencies, 382

161, 266, 311, 474, 480; Arrow on, 1–2, 19–20 patent holder: business stealing effect of rents, 179; circumventing, 437; competition for rents, 394; enclosure of commons, 145–46, 238, 433, 451; entertainment and pharmaceutical industry, 429–30; holdups, 146, 435–36, 451, 454; knowledge rents, 45–48; legal

Pareto inefficiency, 41, 126, 141–42,

framework for property rights, 21; macroeconomic perspective, 30; monopoly, 110, 115-17, 145, 227, 236, 268, 398, 452–53; private rewards and social returns, 143-44, 181, 436; rents, 143-45, 235; sustainable rents, 399. See also creative destruction patent pool creation, 434 patent races, 77, 103, 110, 144-45, 223-32; competition and innovation rate, 113-15; innovation rate formulation, 113-15; limited innovation, 120-21, 124 patents: adverse effects of, 456; alternative systems comparison to, 449; ambiguous boundaries, 433-34, 478; analysis implications of, 456; circumventing, 437; disclosure requirements, 59–60, 75–76; enclosure of commons, 145-46, 238, 433, 451; evergreening and data exclusivity, 436-37, 440; government, 441; granting and enforcing process, 443; holdup, in Schumpeterian competition, 146; holdups and patent trolls, 435-36, 451, 454; impeding learning, 59, 75, 433–36, 476; as innovation impediment, 59, 75; open-source movement and, 445; patent holder's profits, 143-44; patent pool creation, 434; patent races, 77, 103, 110, 144-45, 223-32; patent races and innovation rate, 113-15; patent system versus incentive for innovation, 437, 451; patent thickets in, 434, 451, 454; prize system alternative to, 445-47; research distortion by, 446-47; restricted access and knowledge,

patents (continued) optimal consumption and, 59, 75, 431, 446, 476; risk and lack 289–95; possibilities schedule, of coordination, 451-52; socially 43; spillovers, 64, 270-71, 343; unproductive races in, 438; trade policy role in, 361; value of research and level of, 285 system rules, 440-41; traditional knowledge -, 437; weak, 434. productivity growth, 270-71, See also spillovers 490-91; asymmetric equilibria and advantage of specialization, patent thickets, 434, 451, 454 patent trolls, 435-36, 451, 454 328–30, 329; counterproductive PDV. See present discounted value policies, 458, 474; cumulative perfect spillovers, 108-9, 270 experience, 326-28; fixed labor Perleman, Michael, 429 supply, no lump sum taxation, perpetual surplus, 8 two sectors, 324-26; G₇ countries, pharmaceutical industry, 21, 429-30 39; gap between productivity and Philippines, 505 best practices, 29-30, 80; hours Phoenix Mutual life insurance paid versus, 39; improved learning impacting rate of, 37–38; industrycompany, 35, 35 level tariff-skill interaction term, Poisson process, 224, 233 Poland, 30-32, 31 512; learning society compared to portfolio approach, to innovation, neoclassical model, 47; macrostability and long-run, 6, 319–32; 448-53, 449 neoclassical beliefs and social Portugal, 24 positive and negative externalities, constructs impacting, 71-72, 74, 460-63, 481; neoclassical model on present discounted value (PDV), distribution of income, 158; Nunn and Trefler's regression results, 512; 220-27, 225, 231 prize system, 445-47 per country, 39, 39; postcolonial era trade policies, 386; technology probability distribution of arrival, and, 270-71, 490-91; Washington 113-14 production: cumulative learning Consensus on, 23, 80, 374–75, 402, from, 330; specialization, 328-30, 405, 481, 493, 509-10 product-variety model, 512-13 production methods: aggregate, progress, rate of, 271 function with constant returns Proposition 1: tighter property rights leads to less innovation, 253-54 to scale, 151–52; episodes of rapid increase in, 36-37; first period and Proposition 2: second-period welfare second period, 272; gap between under monopoly versus duopoly, best practices and, 29-30; of goods versus knowledge, 2-3; impact of Proposition 3: welfare is higher quotas, 346, 346-47; inefficiencies, under monopoly than under 505-6; new, as catalyst for learning duopoly, 108 economy, 52-53; as nonconcave public goods, two properties of,

135-37

function of experience, 329;

quality of life, 406, 470; communist countries versus non-socialist, 30-32, 31; innovation and enhancement of individual wellbeing, 169-72; innovation's contribution to, 136; maximization of societal wellbeing, 156-58; movement toward frontier impacting, 40; Nunn and Trefler's regression results, 512; social value and private value of learning, 137; standard of living in learning economy, 482 quota: autarky, 340, 340-41, 345; impact on agricultural sector, 346, 346-47

RAND Corporation, 499 random cost reductions, 210–12 Rashid, Hamid, 403 R & D. See research and development Real Networks, 117 regulatory banking, 409-11; 2008 global financial crisis, 42, 96, 151, 372, 405, 418, 491, 495 rents: business stealing effect, 179; circumventing patents, 437; competition for, 394; enclosure of commons, 145-46, 238, 433, 451; entertainment and pharmaceutical industry, 429-30; holdups, 146, 435-36, 451, 454; innovation, 233-35, 334-36; knowledge, 45-48; legal framework for property rights, 21; macroeconomic perspective, 30; monopoly, 110, 115-17, 145, 227, 236, 268, 398, 452-53; private rewards and social returns, 143-44, 181, 436; to support R & D, 19; sustainable, 399. See also creative destruction; patents

research and development (R & D): clean technologies, 517-21; collateral and, 408; data exclusivity, 436-37, 440; entrant versus incumbent, 121-22; entrepreneurship, 411–12, 513–14; government funding of, 334, 444-45, 453; increased incentives and, 443-44; industrial firms as source of innovation, 90-93; investment, marginal return to, 208, 208-9, 209; investment model, 283-84; knowledge and peer recognition motivating, 448; learning firm's ability to support, 93; macroinstability impacting, 96-97; market imperfections in, 267-68; market investment in, 166-67; model of investment in, 283-84; monopolist and duopolist, 109-10; in monopoly versus oligopoly, 138-41; Nash equilibrium formula, 254-55; patent holder's profits, 143-44; patents distortion of, 446–47; patent system distortion of, 446-47; patterns of, 168-69; private rewards and social returns, 143-44; productivity growth, 270-71, 490–91; profit-maximizing, 249-50; rents to support, 19; risk and lack of coordination in, 451-52; Schumpeterian competition and riskiness of, 131–32, 141–43; spillovers from, 138-41; Stackleberg equilibrium, 117-19; subsidies formulation, 197; sunk costs and, 119-20; tighter IPR impact on, 254-59, 255, 258; underinvestment in, 104; value of research and level of production, 285; in winner-takes-all system, 144–45. See also Schumpeterian competition

reserves and surpluses, 362; accumulated, 359; agricultural workers move to cities, 150; perpetual, 8 returns to scale, 14, 138-39, 140, 151–52, *152*, 172, 268, 293; market power arising from, 398-99 Ricardian model, 350, 363 Ricardo, David, 382 rigidities, institutional and societal, 72-73 Rio Agreement, 442 risk: IPR and litigation risk, 433-34; in lack of coordination of patents, 451–52; of R & D in Schumpeterian model, 131-32, 141-43; view of capitalism after 2008, 42, 96, 151, 372, 405, 418, 491, 495 Robinson, James, 364 Rodrik, Dani, 389 Romer, Paul, 493; product-variety model, 512-13 Route 128, Boston area, 506 Royal Society for the Encouragement of Arts, Manufactures and Commerce, 445-46

Sah, Raaj Kumar, 110
Sah-Stiglitz invariance theorem,
110
Salter, W. E. G., 158
Samuelson, Paul, 135–36, 382
Scandinavian countries: dynamic
economies, 469; Finland, 30–32,
31; social protections, 468; U. S.
compared to, 365, 470
Schumpeter, Joseph, 7, 14–16, 19–22,
97–98; on market structure, 101–3,
105; monopoly conjecture, 280,
282, 310, 478

Schumpeterian competition, 22, 102-3, 110, 164, 431, 491; conditions lowering demand curve for labor, 172-73; coordination failures, 146-47; correctness of, 234; on distinctive properties of knowledge, 135-37; divergence between social and private returns, 133; failure of current market processes, 131-33; GDP in, 169-72; holdup patents, 146; imperfections of competition, 138-41; imperfect risk and capital markets, 131-32, 141–43; inefficiencies inherent in evolutionary selection, 161-64; innovation as foremost element, 131-32; interactions among market failures, 147-48; knowledge spillovers, 432; learning externalities and market structure, 139-40, 140; market structure and, 115, 124, 126; monopoly rents and enclosure of commons, 145; not best way to finance R & D, 165-72; reasons markets for innovation are inefficient, 143–49; short-run equilibrium, 153–56; social and private returns to race winner, 145; socially unproductive innovation, 149-53; theory of second best and financing of innovation, 148-49. See also creative destruction sectoral intervention, recent findings, 510-16 Selden, George Baldwin, 433 selection attribute, 448 separable demand equation, 276 sequential monopoly: compared with persistent monopolist, 225–27; equilibrium: large

innovations, 186-87, 187; equilibrium: small innovations, 184-86, 185, 186; equilibrium with large innovations, 186-87, 187; equilibrium with small innovations, 184-86, 185, 186; optimal timing, 224-25, 225; persistent myopic monopolist, 188-90, 189, 196-97, 200 Shapiro, Carl, 154–56, 155, 159 Shapiro-Stiglitz model, 154–56, 155 Silicon Valley, 506 size, of industrial sector, 343–44 skill-biased innovation, 157-58 Sloan Foundation, 383–85, 490 Small Business Administration, Smith, Adam, 2, 18–19, 165, 382 Smoot-Hawley Tariff (1930), 508 Social Choice and Individual Values (Arrow), 485 social constructs. See belief systems and social constructs societal learning, 49, 57, 459; aggressive protection and subsidies, 389, 511; arguments for government intervention, 42-43; banking and financial policy, 404-5; Brazil's strategic, 388, 502-3; in catching-up countries, 333-34, 509-21; China's strategic, 33-34, 362, 389-91, 396, 407, 420, 423-24, 455, 488-89, 495, 497-98, 507; clean innovation subsidy, 517-21; concentration and diffusion of knowledge across firms, 92; countercyclicality and, 520-21; delayed intervention impacting consumption, 518; development banks, 395, 411, 412; entrepreneurship from, 411-12, 513-14; geographical

localization, 95-99; government encouragement of, 6, 15-16, 20-24, 87, 272, 311, 318, 334-36, 362-63, 402, 404, 408, 444-45, 453, 476, 479, 494-95, 516-19, 518; industrial firms as source of innovation, 90-93; Korea's strategic, 338–39, 338–40; learning by trade, 54-55; in learning environment, 62-63, 332, 336-41, 360, 476; macro-stability and continuity requirement, 96-97; need for macro-stability and continuity, 91, 319-32; about new products, 49; robust financial sector, 94-95; spillovers, 64-65, 93-95, 104-5, 108-9, 135-37, 138-41, 140, 266, 270-71, 283-85, 304-6, 310-13, 323-28, 331, 335-36, 35I-53, 352, 353, 4II-I2, 422, 432, 489, 506–7, 513–14; support for R & D, 93; value of, 357-58, 479. See also financial policy; government intervention; industrial policy; learning by doing

societal well-being: innovation and, 169–72; maximization of, 156–58, 190–91, 232–33; under monopoly versus duopoly, 107–8; socially optimal innovation formula, 222–23; social value and private value of learning, 137

Solow, Robert, 1–3, 8, 10, 14–15, 41, 360, 473, 487, 490; on comparative advantage and catching-up countries, 500, 502; growth model, 158–61; on longrun dynamics and factor-biased technological progress, 158, 175–78

South Carolina, 404–5 Southeast Asia, 30–32, 31 South Korea, 25–27, 66; comparative advantage, 338-39, 338-40, 363 489; favoring broad barriers to trade, 396; industrial policy, 388-89, 398-400; industrial protection, 340; industrial strategies, 398-99; quality of life, 30-32, 31; quota autarky, 340-41 Soviet Union, 30-32, 31 Spain, 30–32, *31* speed, overinvestment in, 235 Spence, Michael, 500 spillovers: direct rewards from, 506-7; entrepreneurship, 411–12, 513– 14; full, 304–6; identifying, 489; imperfections of competition, 335-36, 432; institutional, 64-65, 331; learning, 65, 104-5, 266, 310-13; learning elasticity and, 323-28; learning firms, 93-95; market structures and, 139-40, 140; natural resources sector, 422; perfect, 108-9, 270; in perfect competition compared to monopolistic competition, 139-40, 140; in production methods, 64, 270-71; from R & D, 138-41; role of, 283-85; steadystate solution, 351-53, 352, 353; two properties of public goods, 135-37; within-industry, 284. See also technology stability of organization, 91, 319-32 Stackleberg equilibrium, 117–19 standard competitive theory, 102 standard international trade problem, 355–56 standard learning model, 103 standard of living, 406, 470; communist countries versus nonsocialist, 30–32, 31; government responsibility, 21; innovation's contribution to, 136; in learning

economy, 482; movement toward frontier impacting, 40; Nunn and Trefler's regression results, 512 static (in)efficiencies: dynamic benefits and, 331; dynamic efficiency in learning economy, 81; IPR and, in catching-up countries, 431 steady-state: analysis of non-, 358-60; knowledge inflows and outflows, 248-49; multiple steady-state equilibria, 354, 354; solution, 351-53, 352, 353; value of knowledge pools, 251 Stern, Scott, 429 Stiglitz, Joseph E., 64, 78, 117, 486, 503-7; on admissible taxes, 364; Dixit-Stiglitz model, 512; on entrepreneurs, 411; free entry market equilibrium, 311; Greenwald-Stiglitz program, 501, 511; Grossman-Stiglitz critique, 78; on IPR, 429; Krugman-Dixit-Stiglitz model, 24; Nalebuff-Stiglitz analysis, 120–21, 123; Sah-Stiglitz invariance theorem, 110; Shapiro-Stiglitz model, 154-56, 155; Stiglitz-Weiss adverse selection, 71, 77-78 structural adjustment policy, 98-99, 334; exchange rate policy, 417– 20; foisted on African countries, 360-61, 388; growth stifled by, 373-74; inevitabilities of, 371; Washington Consensus, 23, 80, 374-75, 402, 405, 481, 493, 509-10 subsidies, 7; aggressive protection and, 389, 511; Asian countries' export promotion, 509; China's, 497-98; creative destruction and R & D, 197; government, for

education, 423; in learning sector

of closed economy, 282; lump sum tax subsidy and, 315-16; optimal industrial, 276-77; targeted, 511; tax policies and, 311-15 sunk costs, 119-20 Supreme Court, U. S.: eBay Inc. v. MercExchange, L.L.C., 435; patent system and, 440-41 surpluses and reserves, 362; agricultural workers move to cities, 150; perpetual, 8 symmetric equilibrium, 198; twoperiod, N-good model with endogenous labor supply, 297-301. See also competitive equilibrium

tacit knowledge, 25-26, 74, 491; learning from others, 53 Taiwan: favoring broad barriers to trade, 396; quality of life, 30-32, 31 taxes: benefit, 450; carbon tax, 517-21; consumption and, 358; distortionary tax on agricultural sector, 277-79; fixed labor supply, no lump sum taxation, two sectors, 324-26; interventions and optimal tax theory, 363-64; monopoly tax, 149-450; no lump sum, 306-7, 324-26; optimal learning with lump sum taxation, 301-4; optimal tax intervention, 275; optimal tax intervention rewrite, 276; set of admissible, 364; Smoot-Hawley Tariff, 508; subsidy policies and, 311-15; tariff barriers, 4-5, 500-501; trade interventions and optimal tax theory, 363-64 technology/technological progress: alternative, in market structure,

408; computerization, 52; economics of information, 131-32; endogenization of, 2-5, 16-17, 131-32; factor bias, 152-53, 154; government funding for, 334, 444-45, 453; increased incentives and, 443-44; industrial firms as source of innovation, 90-93; internet, 54, 55, 445; knowledge and peer recognition motivating, 448; learning economy and, 55-56; learning firm's ability to support, 93; learning to exploit existing opportunities and, 34-36; longrun dynamics and factor-biased technological progress, 173-78, 176; macro-instability impacting, 96-97; market imperfections in, 267-68; market investment in, 166-67; model of investment in, 283-84; monopolist versus duopolist, 109-10; in monopoly versus oligopoly, 138-41; Office of Science and Technology Policy, 430; Ohio Valley knowhow, 52; patent holder's profits, 143-44; private rewards and social returns, 143-44; productivity growth, 270-71, 490-91; profitmaximizing, 249-50; progress versus size of industrial sector, 343-44; rate of, 271, 271; risk and lack of coordination in, 451-52; Schumpeterian competition and riskiness of, 131-32, 141-43; Silicon Valley, 506; social value and private value of learning, 137; spillovers from, 138-41; sunk costs and, 119-20; tighter IPR impact on, 254-59, 255, 258; underinvestment in, 104. See also innovation; knowledge; patents; research and development

122; capital for, 79; clean,

517-21; collateral for R & D,

TFP. See total factor productivity Thailand: financial policy adverse effects on, 406–7; quality of life, 30-32, 31 total factor productivity (TFP) growth, 497-98 trade policies: advantage of not entering more dynamic sectors, 334–35; Asian countries' export promotion, 509; benefits of learning, 332; catching-up model, 365-66; changing comparative advantage, 362-63; comparative and absolute advantage, 338; consumption taxes, 358; correcting market failures, 333-34, 477; cutthroat competition, 364-65; dynamic development, 343-44; economics of information, 131-32; envelope theorem, 358; Europe's structure, 8; exchange rate changes, 359-60, 362, 476; favoring broad barriers, 396; free-trade equilibrium, 339, 342; global imbalances, 361–62, 501-2; government and value of learning, 357–58, 479; government incentives, 335-36; government support of industrial sector, 362-63; homotheticity and constant elasticity, 358; industrial and trade policy focus, 337, 480; industrial sector and agricultural sector, 332; international trade agreements, 354-55; interventions and optimal tax theory, 363-64; Korea's, 338–39, 338–40, 363, 489; leaders and followers policies, 364-66; learning spillovers and imperfections of competition,

Tennessee, 404-5

Texas, 404-5

335–36; liberalization, 361; multiple steady-state equilibria, 354, 354; non-steady-state analysis, 358–60; nontraded consumption goods and public goods, 355–57; nontraded sector and exchange rate intervention, 354-58; Nordic welfare model, 364-66; optimal trade interventions, 346-47, 346-47; patent system and protection through, 334; postcolonial era, 386; quota autarky, 340, 340-41, 345; Ricardian model, 350, 363; role of, 344-45; role of production in, 361; set of admissible taxes, 364; Smoot-Hawley Tariff, 508; social benefits from, 336; standard international trade problem, 355–56; static (in)efficiencies and dynamic benefits, 331; steadystate solution, 351–53, 352, 353; structural adjustment policy, 360-61; technological progress versus size of industrial sector, 343-44; two-country, two-good model, 335; two economies model, 341-45; two-sector economy intervention, 348–50; two-sector model, 337–44, 338; U. S., 383–85; utility value free trade and autarky, 345; WTO, 23, 361, 362, 384, 399-400 Trade Related Aspects of Intellectual Property Rights (TRIPS), 23, 429, 442, 455 Trefler, Daniel, 496–98, 512 Tressel, Thierry, 403 TRIPS. See Trade Related Aspects of Intellectual Property Rights trolls, patent, 435-36, 451, 454

Tuncer, Baran, 508 Turing, Alan, 136 Turkey, 508; infant substitution policies, 494; nonprotected firms, two-country, two-good model, two economies model, 341-45 two-good closed economy model, 7 two-period, N-good model with endogenous labor supply: basic intuitions and results, 287-89; basic model: optimal production and consumption, 289-95; full spillovers, 304–6; lump sum taxation, 301-4; no lump sum taxes, 306-7; price interpretation, 295-97; symmetric equilibrium case, 297-301 two-sector model of learning, 337-44, 338, 388; upstream linkages, 385-87

U. K. See United Kingdom underinvestment: in innovation, 438; in learning and education, 55, 104 UNDP. See United Nations Development programme unemployment: demand curve shift for labor, 154-55; industrial policy and, 379; innovation and excessive, 151-59, 152, 154, 155 unexploited productive capacity, 36 United Kingdom (U. K.): aggressive protection and subsidies, 389, 511; G₇ countries productivity growth comparison, 39; Royal Society for the Encouragement of Arts, Manufactures and Commerce, 445-46; unexploited productive capacity, 36

United Nations Conference on Sustainable Development (Rio agreement), 442 United Nations Development programme (UNDP), 383 United States (U. S.), 505; aggressive protection and subsidies, 389, 511; Agricultural Extension Service, 5, 93; automobile productivity, 351; banking, 404-5; competition laws and policies, 171; Court of Federal Claims, 441; cutthroat competition, 364-65; dynamic comparative advantage, 26; eBay Inc. v. MercExchange, L.L.C., 435; economy during World War II, 37–38; exchange rate, 420; factor endowments, 24; favoring broad barriers to trade, 396; financial markets, 403; G₇ countries productivity growth comparison, 39; government-funded research, 444–45; heavy industrialization strategy, 27; industrial policy, 387-88, 493; innovation and enhancement of individual and societal well-being, 169-72; intellectual property rights, 168; IPR, 430, 452–53; labor scarcity as inducement to innovation, 159; long-term deficits, 361; marketbased system development, 409; monopoly pricing and, 450-51; opposing government intervention, 510; patent pool creation, 434; patent system, 440-44; Scandinavian countries compared to, 365, 470; state banking, 404–5; trade policy, 383– 85; Washington Consensus, 23, 80, 374-75, 402, 405, 481, 493, 509-10; World War II economy, 37–38

upstream linkages, 385–87 urban sector: decline in demand for urban goods, 150; dissemination and utilization of information, 4–5, 55, 94, 490 Uruguay round trade negotiations, 59, 403, 429, 455 U. S. See United States utility, as nonconcave function of consumption, 329

venture capital firms, 408 Verdier, Thierry, 364 Vietnam, 32, 34 Virginia, 404–5 Volcker, Paul, 151

Wacziarg, Romain, 493
Walras, Léon, 102
Wang, Yan, 403
Washington Consensus, 23, 80, 374–75, 402, 405, 481–82, 493, 509–10
Watson, James, 136
WCED. See World Commission on Environment and Development weak patents, 434

Weiss, Andrew, 77 Winter, Sidney, 505 WIPO. See World Intellectual Property Organization Woodford, Michael, 500 World Bank, 394, 447, 489, 491, 500,510 World Commission on Environment and Development (WCED), 442 World Intellectual Property Organization (WIPO), 59, 454 World Trade Organization (WTO), 23, 361, 362, 384, 399-400 World War I, 434 World War II: industrial policy after, 492-93; quality of life after, 30-32, 31; U. S. economy during, 37-38 Wright Brothers, 434 WTO. See World Trade Organization

Xerox, 91 X-inefficiency, 122, 125

Yeyati, Eduardo Levy, 403 Young, Alwyn, 513