

# Harrod-Okishio investment function under the permanent income hypothesis

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## Abstract:

Harrod-Okishio investment function well represents the instability of real investment behavior. On the other hand, the investment function has in most cases been discussed in a set with the classical Keynesian investment function. In the medium and long term, the Keynesian consumption function does not fit well with reality. This is a well-known fact since Duesenberry: In the medium to long term, consumption is a constant fraction of income. This factor may be a factor that distances the instability of the investment function from the instability of the economy as a whole. This paper takes the permanent income hypothesis as an assumption about consumption that explains the facts pointed out by Duesenberry and discusses the economy-wide stability of its combination with the Harrod-Okishio investment function. It is shown that while the constant income hypothesis cannot completely eliminate the economy-wide instability caused by the investment function, the one-way instability of the Harrod-Okishio investment function combined with the Keynesian consumption function does not always appear.