Harrodian Instability and Market Structure

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Abstract

This paper investigates the Harrodian instability principle under two alternative market structures in the goods market. The first is perfect competition, under which firms are price takers and maximize profits. We show that, under this market structure, the warranted growth path is always unstable. The second is imperfect competition, under which firms face downward-sloping demand curves and therefore possess market power in the goods market. We demonstrate that, under this market structure, the warranted growth path is stable under certain conditions.