

Essay on International Financial Crisis and Endogenous Growth Theory

Boris Molochny

International PhD Program

Faculty of Business and Economics

University of Pecs

E-mail: ephd@rambler.ru

Abstract

This paper reviews endogenous growth theories in the light of the modern reality. It seems that economies which are similar in technologies and preferences are expected to converge to the same level of per capita income. The question “How are repetitions of financial crisis best predicted?” is still not answered. It also seems that combining of these models in a singular theory of business coexistence between neo-classical growth models during “Peace time”, and unpredicted forces and engines, which move economics during “Crisis time”, provide a treatment solution.

Keywords: Business Coexistence, Endogenous growth theories

JEL classification: E20, G10, M21

1. Introduction

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. Until the 1980s, long-run productivity growth was interpreted mostly with exogenously driven explanations. In the mid-1980s, a number of growth theorists became dissatisfied with this approach. “This dissatisfaction motivated the construction of a class of growth models in which the key determinants of growth were endogenous to the model” states Barro (1995, p.38), led to determination of the long-run growth within the approach, more than some exogenously growing variables. The neo-classical growth model, based on works of Solow (1956) and Swan (1956), has seen a revival of interest with the appearance of the new endogenous growth theories that have challenged its predictions as well as its consistency with the new stylized facts of growth.