

# PERFECT FORESIGHT IN TWO-SECTORAL TWO-PERIOD LIVED OLG MODELS

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## Abstract

This article investigates the existence of perfect-foresight equilibria in two-sectoral two-period lived OLG Models. It extends the setting in Galor (1992) by allowing for partial depreciation of capital, factor-intensity reversals, and subjective erroneous beliefs of agents. The generalisation thus allows to include the important parameterisation of CES production functions which so far had to be ruled out. The analysis of temporary equilibria precedes the description of a well-defined intertemporal growth process. It is shown that, generically, perfect foresight is possible only locally in the sense that the economy may persistently assume states in which beliefs cannot be self-fulfilling.

**Keywords:** Growth theory, Overlapping generations, agent-based models, rational expectations, complex dynamics.

**JEL Classification:** C3, E2, O41

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## References

GALOR, O. (1992): “A two-sector overlapping-generations model: A global characterization of the dynamical system”, *Econometrica*, 60(6), 1351–1386.