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European Economic Review

Volume 49, Issue 2, February 2005, Pages 437-456

Too little or too much R&D?

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[https://doi.org/10.1016/S0014-2921\(03\)00045-X](https://doi.org/10.1016/S0014-2921(03)00045-X)

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Abstract

According to the first generation models of endogenous growth based on expanding product variety, the market economy unambiguously generates too little R&D. Later, by disentangling returns to specialization from the market power parameter, it was shown that with sufficiently low returns to specialization too much R&D can occur. The present paper takes a step further, disentangling the market power parameter from the capital share in final output. At a theoretical level this helps finding too much R&D as well. On the other hand, in view of the empirically realistic order of magnitude between the parameters, disentangling market power and capital share tends to *diminish* the scope for excess R&D. Finally, by differentiating between net and gross returns to specialization we demonstrate what drives the differing inefficiency results in this literature.

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JEL classification

O33; O41

Keywords

Endogenous growth; R&D; Expanding product variety; Creative destruction; Optimal growth

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The too-much-of-a-good-thing effect in management, archetype, despite the fact that on Sunday some metro stations are closed, reflects psychosis.

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