Accepted Manuscript


# International endogenous growth, macro anomalies, and asset prices

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PII: S0165-1889(17)30059-3
DOI: 10.1016/j.jedc.2017.03.007
Reference: DYNCON 3417

To appear in: *Journal of Economic Dynamics & Control*

Received date: 14 March 2017
Accepted date: 16 March 2017

Please cite this article as: Patrick Grüning, International endogenous growth, macro anomalies, and asset prices, *Journal of Economic Dynamics & Control* (2017), doi: 10.1016/j.jedc.2017.03.007

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This version: March 21, 2017

**Abstract**

This paper develops a two-country production economy with complete and frictionless financial markets and international trade in which investments in research and development (R&D) by entrants lead to endogenous new firm creation and economic growth. Innovative entrants use both consumption goods in their innovation technologies to capture international technological spillovers. Households also consume both goods. Specifically, I compare the equilibrium implications from the model with technology spillovers to the ones from an equivalent model without technology spillovers, i.e. a model where entrants only use domestic final goods in their R&D expenditures. With these two models at hand, new insights on the interplay of endogenous growth and long-run risks, technology spillovers, complete financial markets, and international trade are obtained, particularly with respect to international macro and asset pricing anomalies. The novel technology spillover channel has the potential to help explaining a number of these anomalies.

**Keywords:** Innovation, Technology spillover, Endogenous growth, Long-run risk, International finance

**JEL:** E22, F31, G12, O30, O41



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