

On the Mechanics of Economic Development and Non-Development

Holger Strulik

Young adults observe the current interest rate, wage rate, and child mortality and decide about savings and the quantity and quality of their children. Human capital is produced as an external effect of expenditure on child quality and its production is subject to decreasing returns. Depending on the economic environment individuals decide on one of three different lifestyles. The first one generates stabilization at a low income level and high population growth, the second one generates the demographic transition and the third one perpetual growth of a modern economy. The paper also discusses the possibility of an endogenous move from Malthusian expansion towards demographic transition