Human capital, basic research, and applied research: three dimensions of human knowledge and their differential growth effects

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Klaus Prettner worked as a postdoctoral research fellow at the Harvard Center for Population and Development Studies and as a researcher at the Vienna Institute of Demography and currently he is an Assistant Professor at the University of Goettingen. His research is primarily concerned with the impact of demographic change on long-run economic growth perspectives of industrialized economies.

[Abstract] We analyze the differential growth effects of basic research, applied research, and embodied human capital accumulation in an R&D-based growth model with endogenous fertility and endogenous education. In line with empirical findings, the long-run growth rate of the economy can be positively associated with education and negatively associated with population growth, while the level of per capita GDP is positively associated with expenditures for basic research. Our results also indicate that increasing public investments in basic research reduces the growth rate of GDP in the short run because resources have to be drawn away from other productive sectors of the economy. This discrepancy between long-run benefits and short-run costs of basic research might be an explanation for the reluctance of governments to increase public R&D expenditures notwithstanding their huge long-run gains.

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