Universal Growth in Production Economies

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Abstract

We study a simple variant of the von Neumann model of an expanding economy, in which multiple producers make goods according to their endowed production function. The players trade their goods at the market and then use the bundles acquired as inputs for the production in the next round. The decision that players have to make is how to invest their money (i.e. bids) in each round.

We show that a simple decentralized dynamic, where players update their bids proportionally to how useful the investments were in the past round, leads to growth of the economy in the long term (whenever growth is possible) but also creates unbounded inequality, i.e. very rich and very poor players emerge. We analyze several other phenomena, such as how the relation of a player with others influences its development and the Gini index of the system.¹

Acknowledgments

This project has received funding from the European Research Council (ERC) under the European Union’s Horizon 2020 research and innovation programme (grant agreement No 740282), from the ISF grant 1435/14 administered by the Israeli Academy of Sciences and Israel-USA Bi-national Science Foundation (BSF) grant 2014389, and from the NSF grant CCF 1750436.

¹The full version of the paper is available at https://arxiv.org/abs/1802.07385.

32nd Conference on Neural Information Processing Systems (NIPS 2018), Montréal, Canada.