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Implications of More Precise Information for Technological Development and Welfare

Burkhard Drees and Bernhard Eckwert

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Prepared by Burkhard Drees and Bernhard Eckwert¹

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Abstract

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This paper analyzes the dynamic interactions between the precision of information, technological development, and welfare within an overlapping generations model. More precise information about idiosyncratic production shocks has ambiguous effects on technological progress and welfare, which depend critically on the risk sharing capacity of the economy's financial system. For example, we show that with efficient risk sharing more precise information adversely affects the equilibrium risk allocation and creates a negative uncertainty-related welfare effect, at the same time as it accelerates technological progress and increases R&D investment.

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Author's E-Mail Address: bdrees@imf.org; beckwert@wiwi.uni-bielefeld.de

¹ Burkhard Drees is in the Asian Division of the IMF Institute. Bernhard Eckwert is Professor of Economics at the University of Bielefeld, Germany. We thank Udo Broll, John Morgan, Jorge Roldos, Keith Wong, and seminar participants at the IMF Institute, at the University of Hong Kong, and at the Technical University of Chemnitz for their comments.

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