

Online-Appendix to

Economic convergence: policy implications from a heterogeneous agent model

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The following tables give the default parameter setting used in the policy experiments discussed in the paper. The robustness of our qualitative findings with respect to changes of numerous key parameters has been examined and verified (see also the robustness check in the Appendix of the paper).

Table 1: Number of agents per region*

| | Region 1 (R1): high tech | Region 2 (R2): low tech |
|------------|--------------------------|-------------------------|
| Households | 800 | 800 |
| Firms | 40 | 40 |
| Government | 1 | 1 |
| Banks | 1 | 1 |

*There is one investment good producer serving both regions, and one central bank

Table 2: Initialization of capital stock and skills

| | Region 1 (R1): high tech | Region 2 (R2): low tech |
|----------------------------------|--------------------------|-------------------------|
| Initial quality of capital stock | 1.5 | 1.0 |
| Initial specific skills | 1.5 | 1.0 |
| General skill distribution | 0.8/0.2 | 0.2/0.8 |

Table 3: List of parameters.

| | <u>Symbol</u> | <u>Name</u> | <u>Value</u> |
|--------------------------|---------------|---------------------------------------|--------------|
| <u>Consumption goods</u> | | | |
| | tax | Income tax rate | 0.05 |
| | u | Unemployment benefit pct | 0.70 |
| | κ | Marginal propensity to save | 0.01 |
| | Φ | Target wealth/income ratio | 16.67 |
| | δ | Capital depreciation rate | 0.01 |
| | χ | Service level for the expected demand | 0.8 |
| | γ^C | Intensity of consumer choice | 9.0 |

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| Symbol | Name | Value |
|-------------------------|---|--------------|
| ρ | Discount rate | 0.02 |
| <u>Investment goods</u> | | |
| Δq^{inv} | Technological progress | 0.05 |
| λ | Bargaining power of the capital goods producer | 0.5 |
| γ^v | Logit parameter for vintage choice | 30.0 |
| <u>Credit market</u> | | |
| T^{Loan} | Debt repayment period | 18 |
| ω | Debt rescaling factor | 0.0 |
| r^c | ECB base rate | 0.04 |
| r^d | Deposit rate | 0.009 |
| <u>Financial market</u> | | |
| d^f | Dividend earnings ratio | 0.70 |
| \bar{d} | Threshold full dividends (firms) | 0.5 |
| α^b | Basel capital requirement | 10 |
| λ^{fin} | Parameter price adjustment rule | 1.0 |
| π^{min} | Ceiling on price growth rate | 1.10 |
| π^{max} | Floor on price decrease rate | 0.90 |
| <u>Labour market</u> | | |
| φ | Wage update | 0.01 |
| ψ | Wage reservation update | 0.01 |
| η^{month} | Number applications | 5 |
| η^{day} | Applications per day | 3 |
| ϱ^{down} | Lower bound firing | 0 |
| ϱ^{up} | Upper bound firing | 0.1 |
| γ^{gen} | Logit parameter general skills | 0.5 |
| $\chi(b_h^{gen} = 1)$ | Specific skills adaptation speed for low skilled workers | 0.0125 |
| $\chi(b_h^{gen} = 2)$ | specific skills adaptation speed for high skilled workers | 0.03703 |