

Figure 1 Conventional Production Function with Decreasing Returns

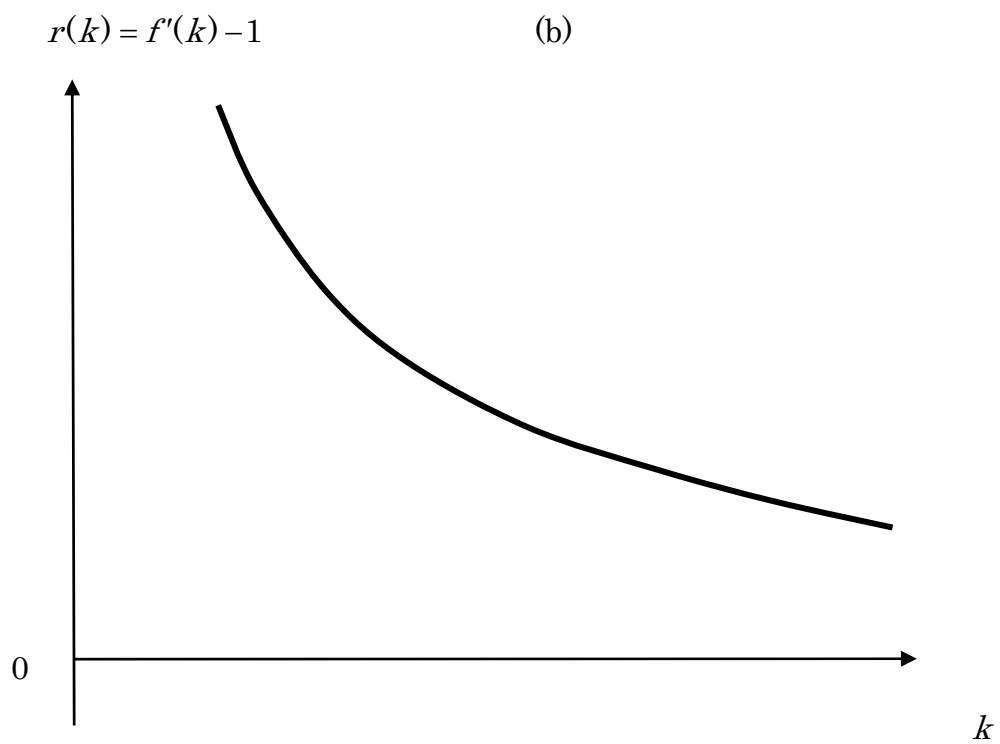
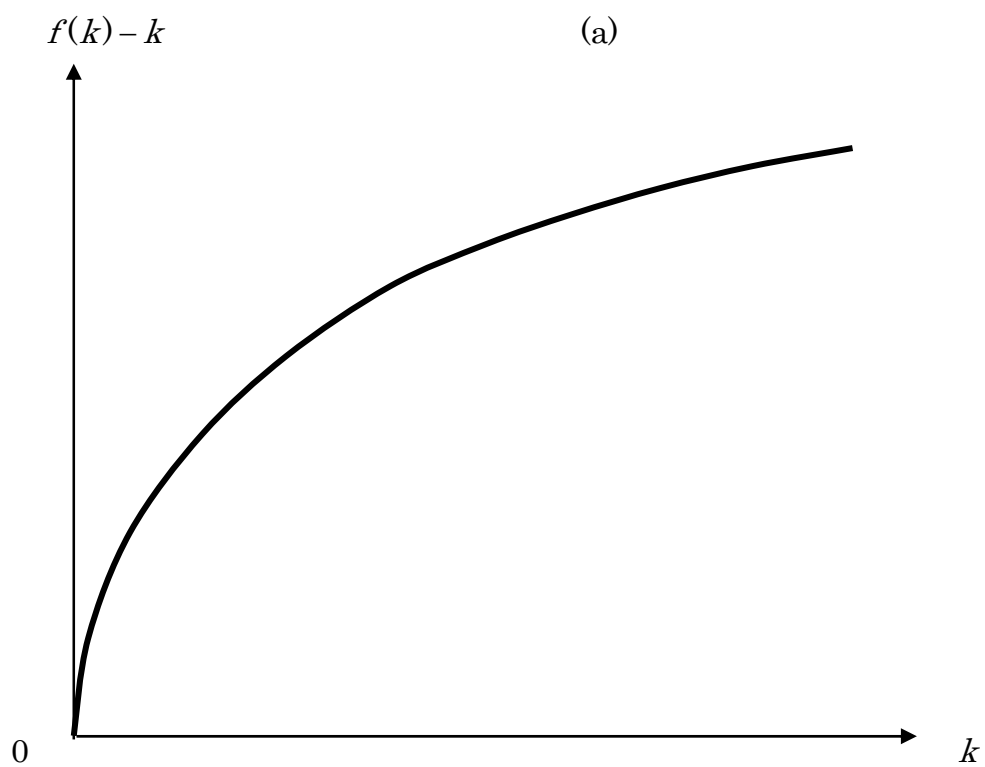
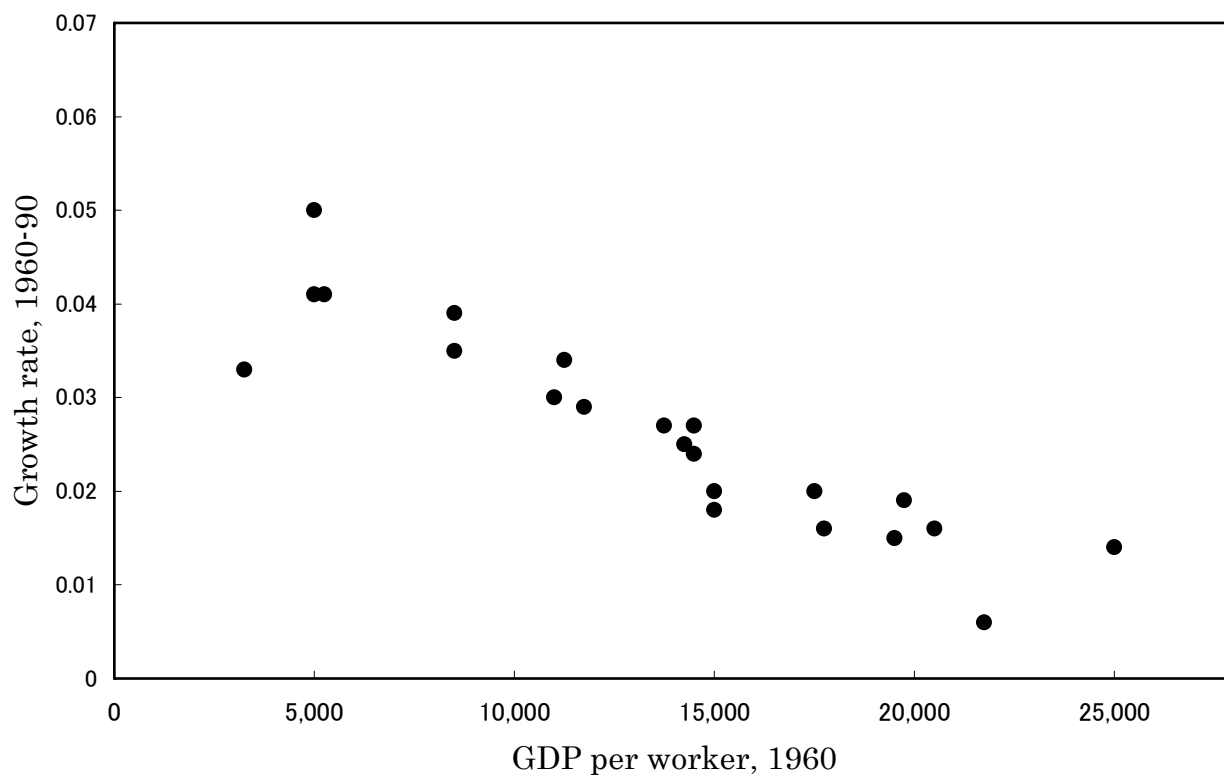


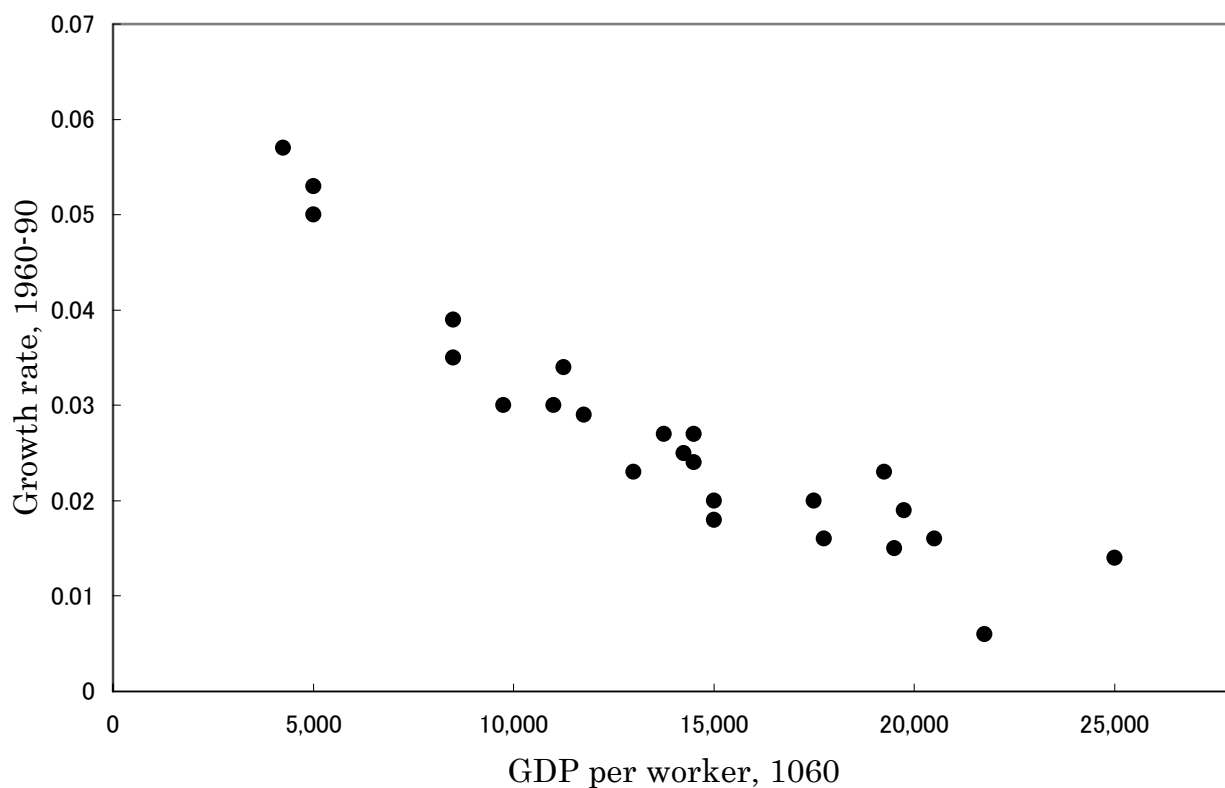
Figure 2A Development Stages and Growth Rates (Developed Countries A)



Source: Penn World Tables, Mark 5.6

Note: Developed countries A comprise the OECD member countries in 1990: U.S.A., Canada, Switzerland, Belgium, Netherlands, Italy, France, Australia, West Germany, Norway, Sweden, Finland, U.K., Austria, Spain, New Zealand, Denmark, Ireland, Japan, Greece, Portugal, and Turkey.

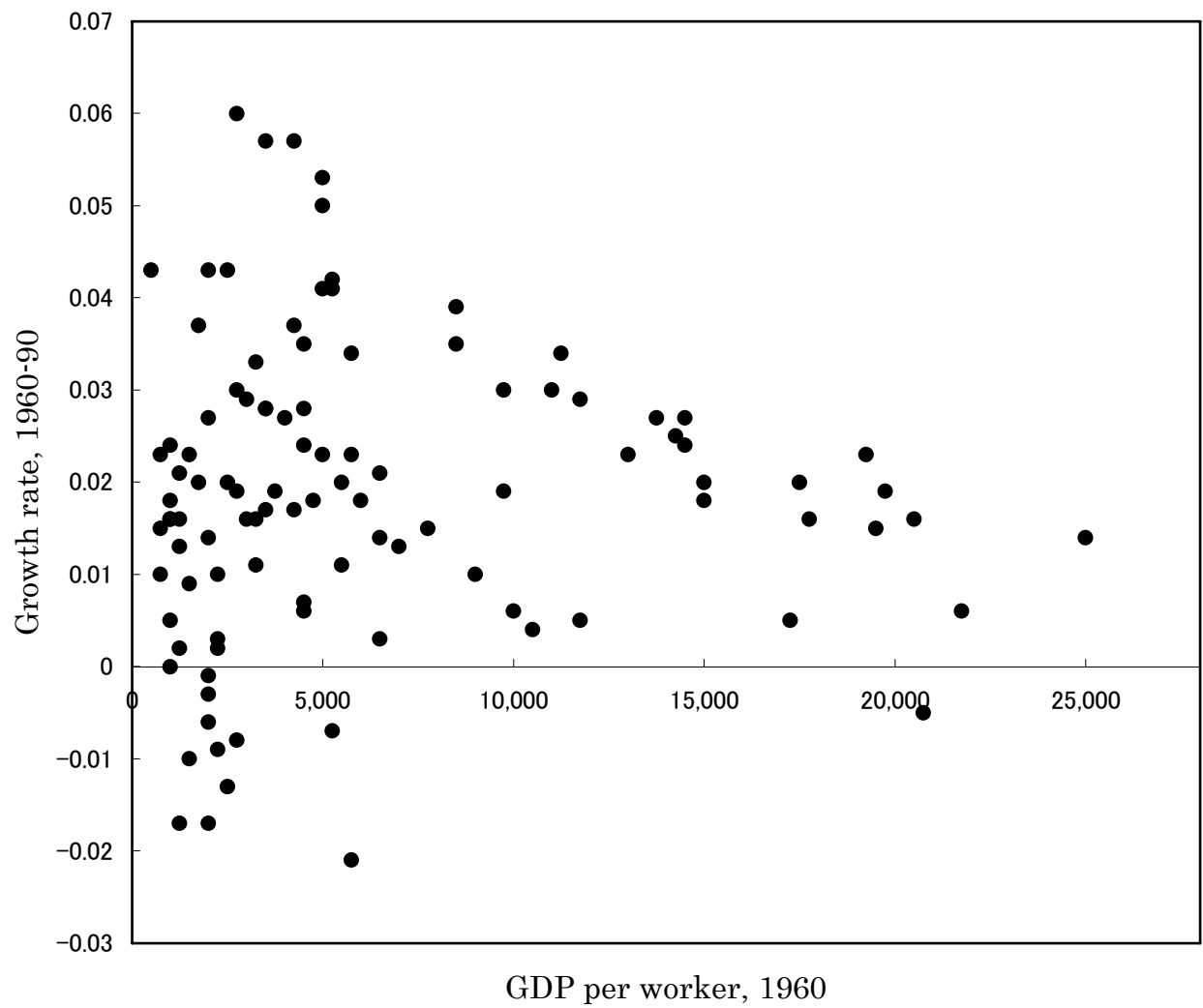
Figure 2B Development Stages and Growth Rates (Developed Countries B)



Source: Penn World Tables, Mark 5.6

Note: Developed countries B comprise those countries whose GDP per worker are greater than the 60 percent of that of the U.S.A. in 1990: Luxembourg, U.S.A., Canada, Switzerland, Belgium, Netherlands, Italy, France, Australia, West Germany, Norway, Sweden, Finland, U.K., Austria, Spain, New Zealand, Denmark, Singapore, Ireland, Israel, Hong Kong, and Japan.

Figure 3 Development Stages and Growth Rates (104 Countries)



Source: Penn World Tables, Mark 5.6

Figure 4 Production Function with Increasing and Decreasing Returns

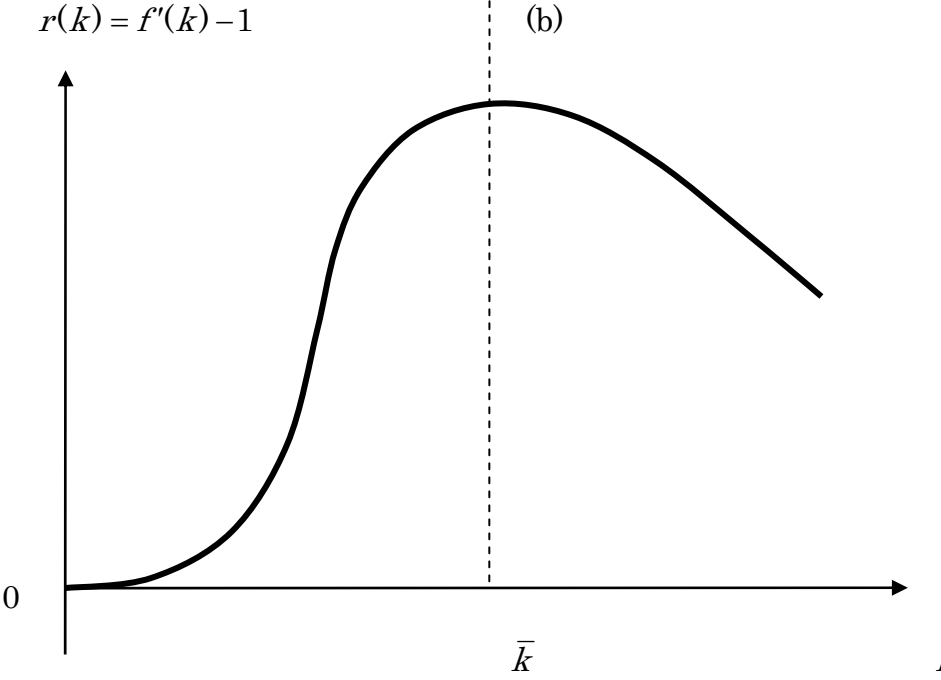
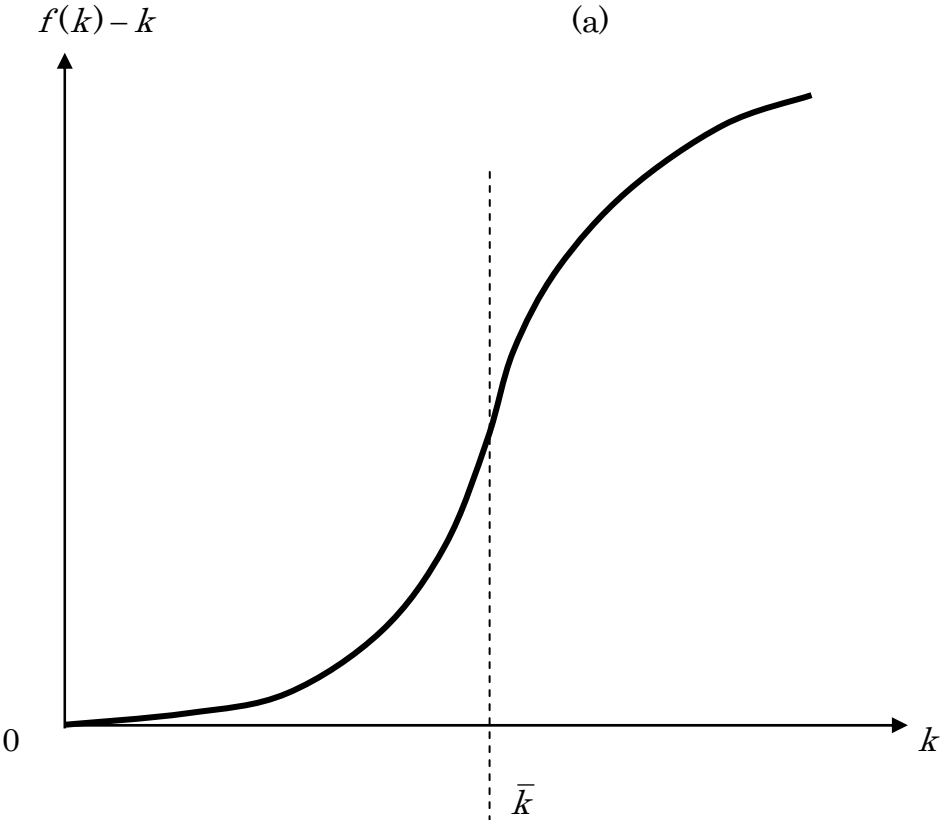
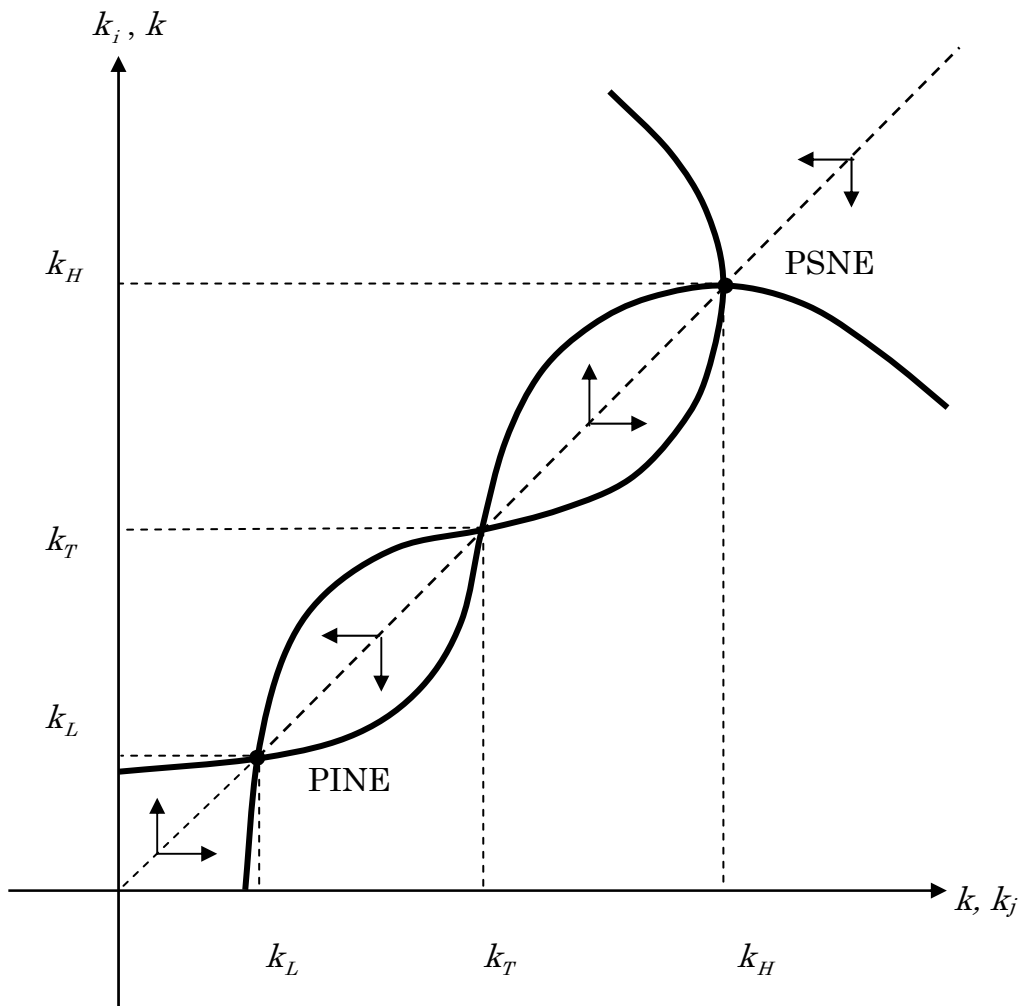


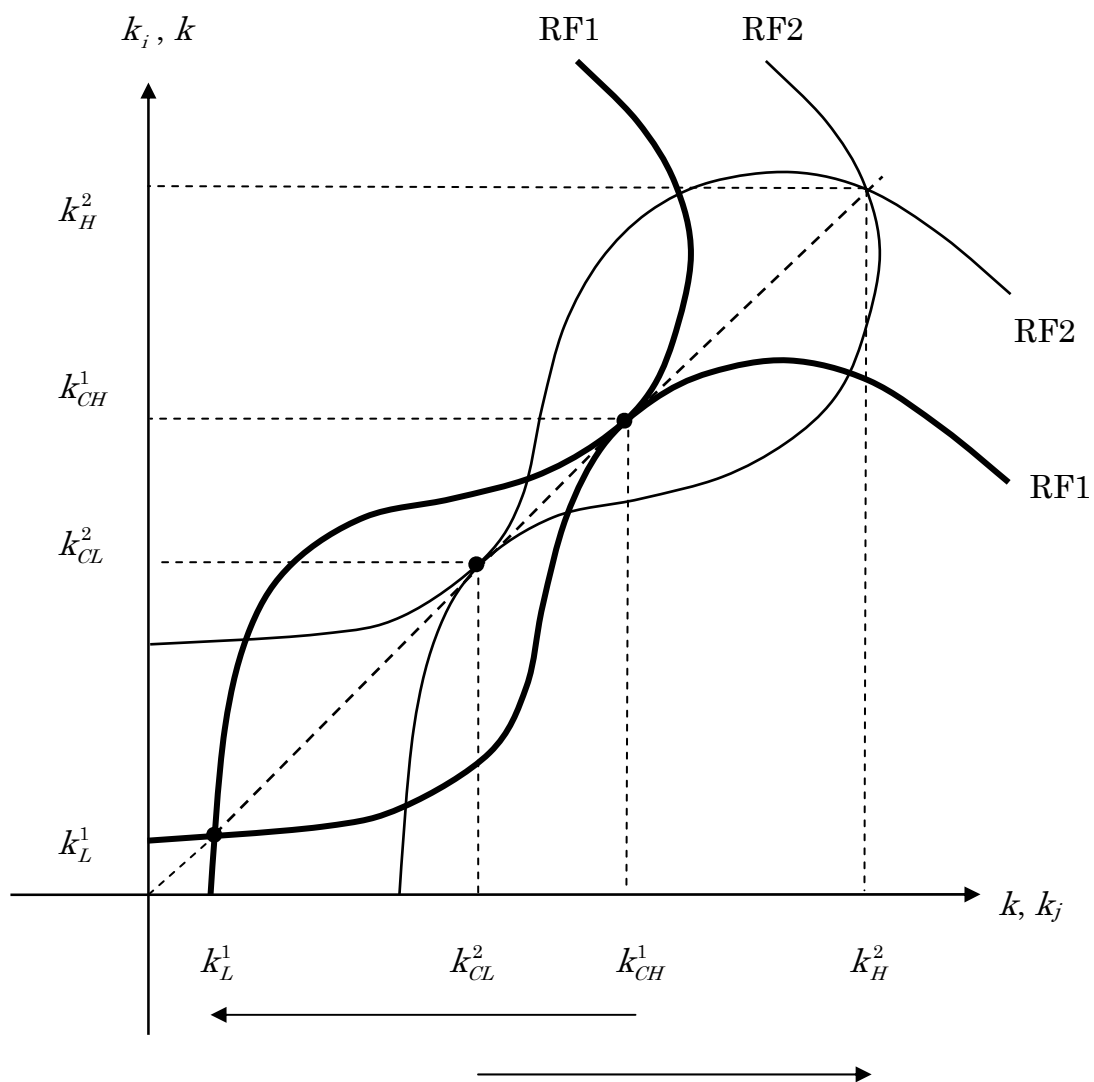
Figure 5 Response Functions and Multiple Nash Equilibria



PSNE = Pareto-Superior Nash Equilibrium

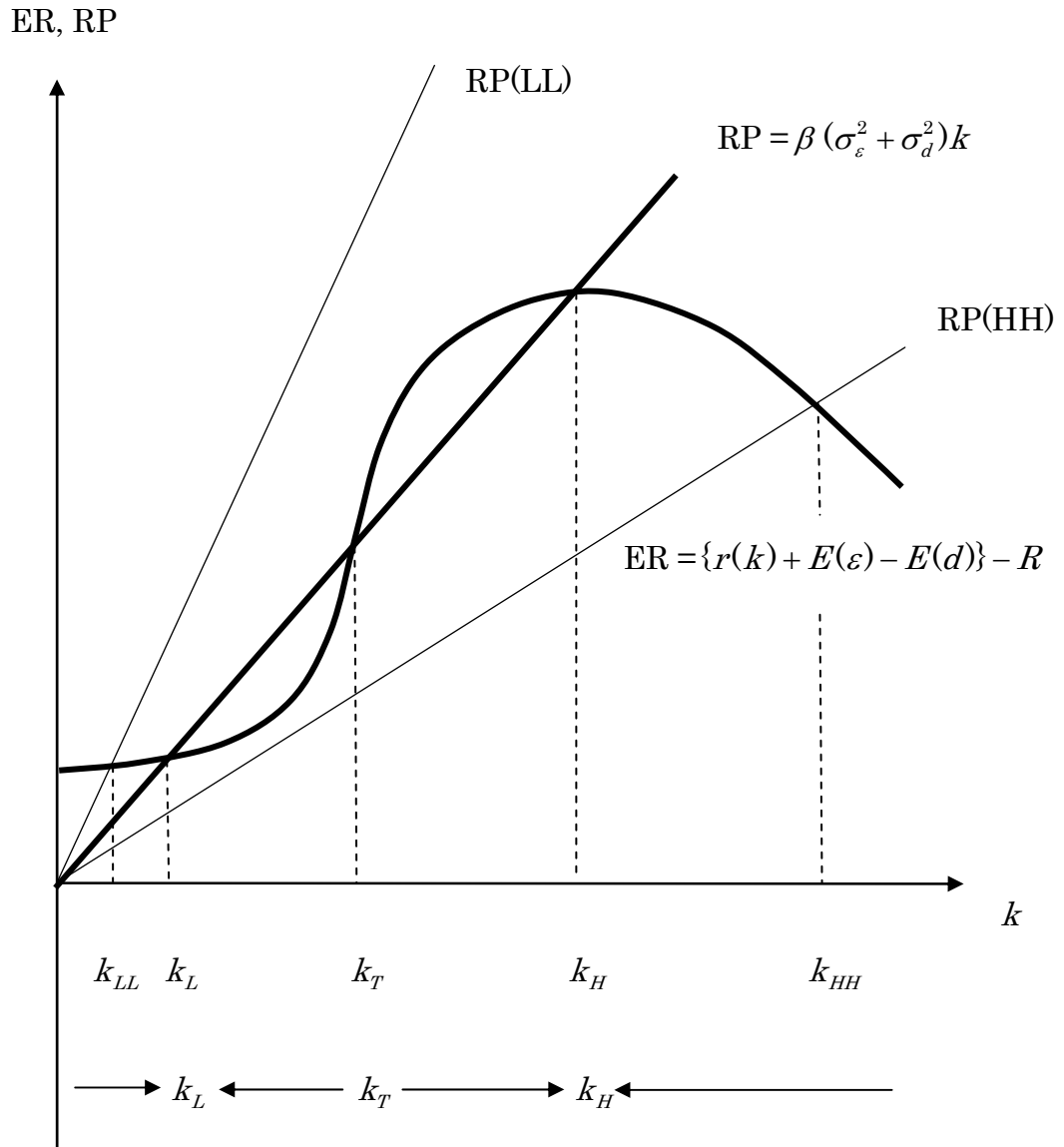
PINE = Pareto-Inferior Nash Equilibrium

Figure 6 Economic Takeoff and Capital Flight in terms of Response Functions



Economic Takeoff:  $k_{CL}^2 \longrightarrow k_H^2$   
 Capital Flight:  $k_L^1 \longleftarrow k_{CH}^1$

Figure 7 Excess Return Curve and Risk Premium Line



Risk Premium Line:  $RP = \beta(\sigma_\varepsilon^2 + \sigma_d^2)k$

Excess Return Curve:  $ER = \{r(k) + E(\varepsilon) - E(d)\} - R$



Figure 8 Changes in Expected Exchange Rate, Expected Productivity, and the World Interest Rate

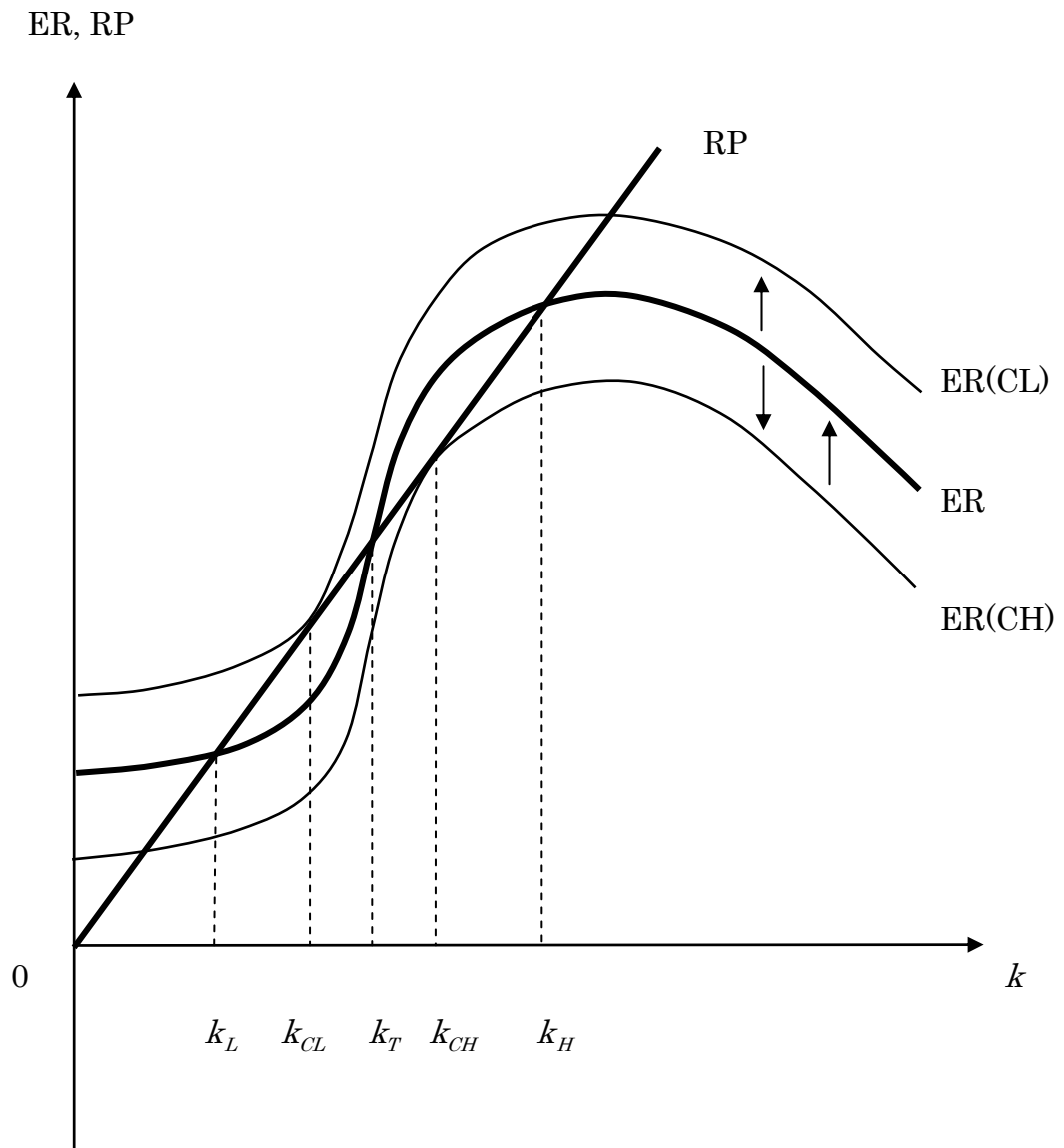


Figure 9 Changes in Exchange Rate Risk, Productivity Risk, and Risk Aversion

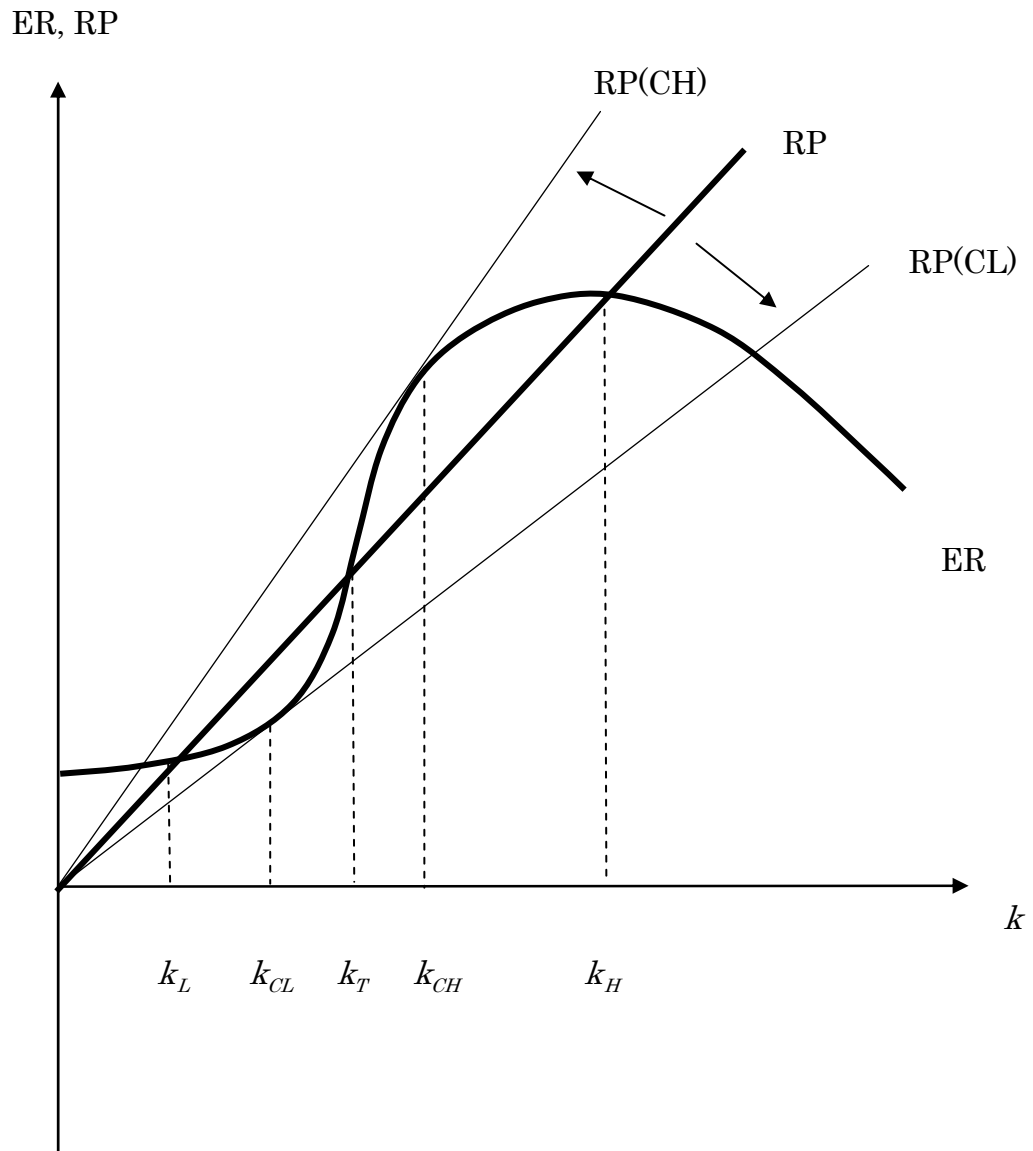


Figure 10 Globalization of Capital Markets and Economic Takeoff

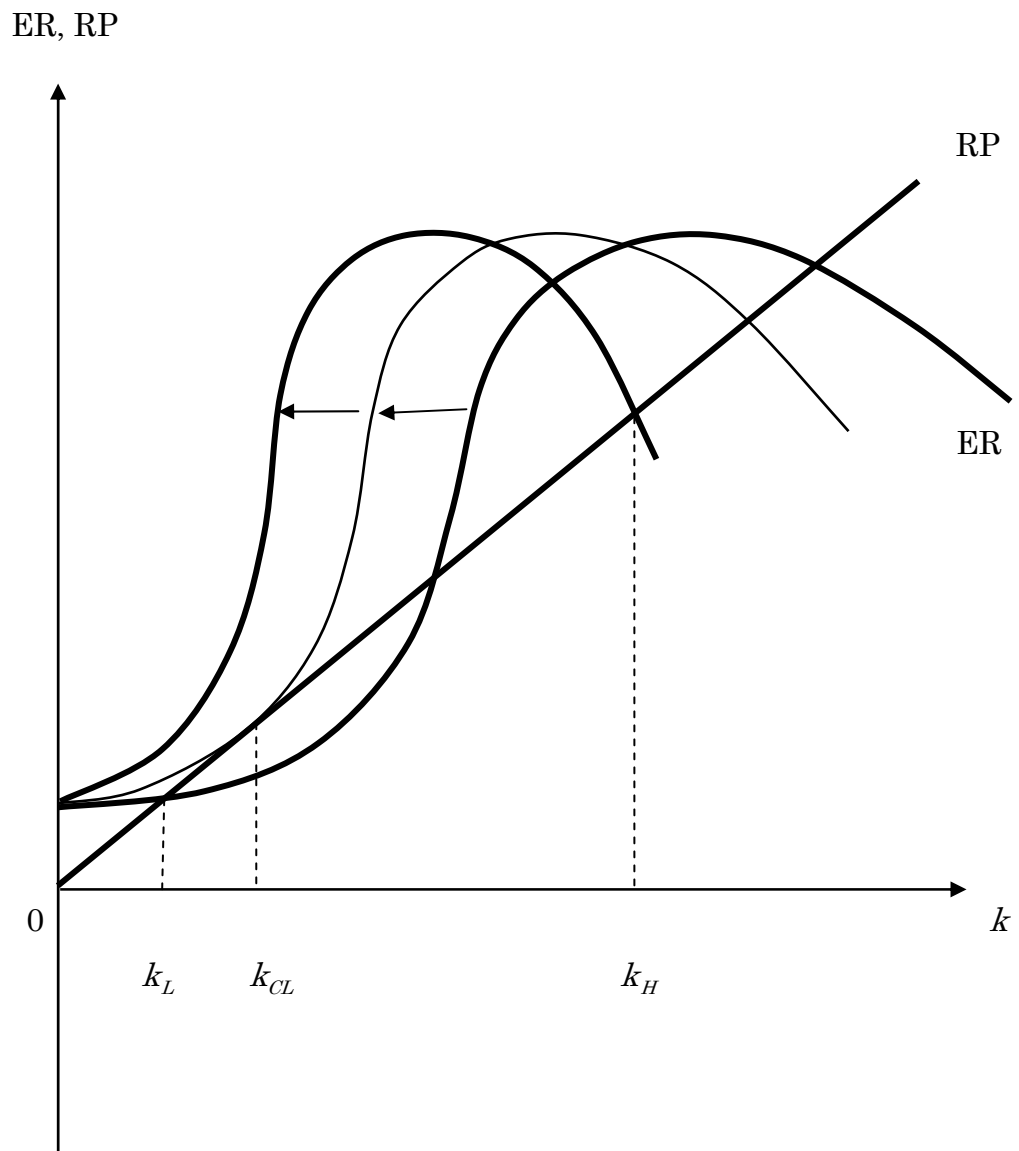
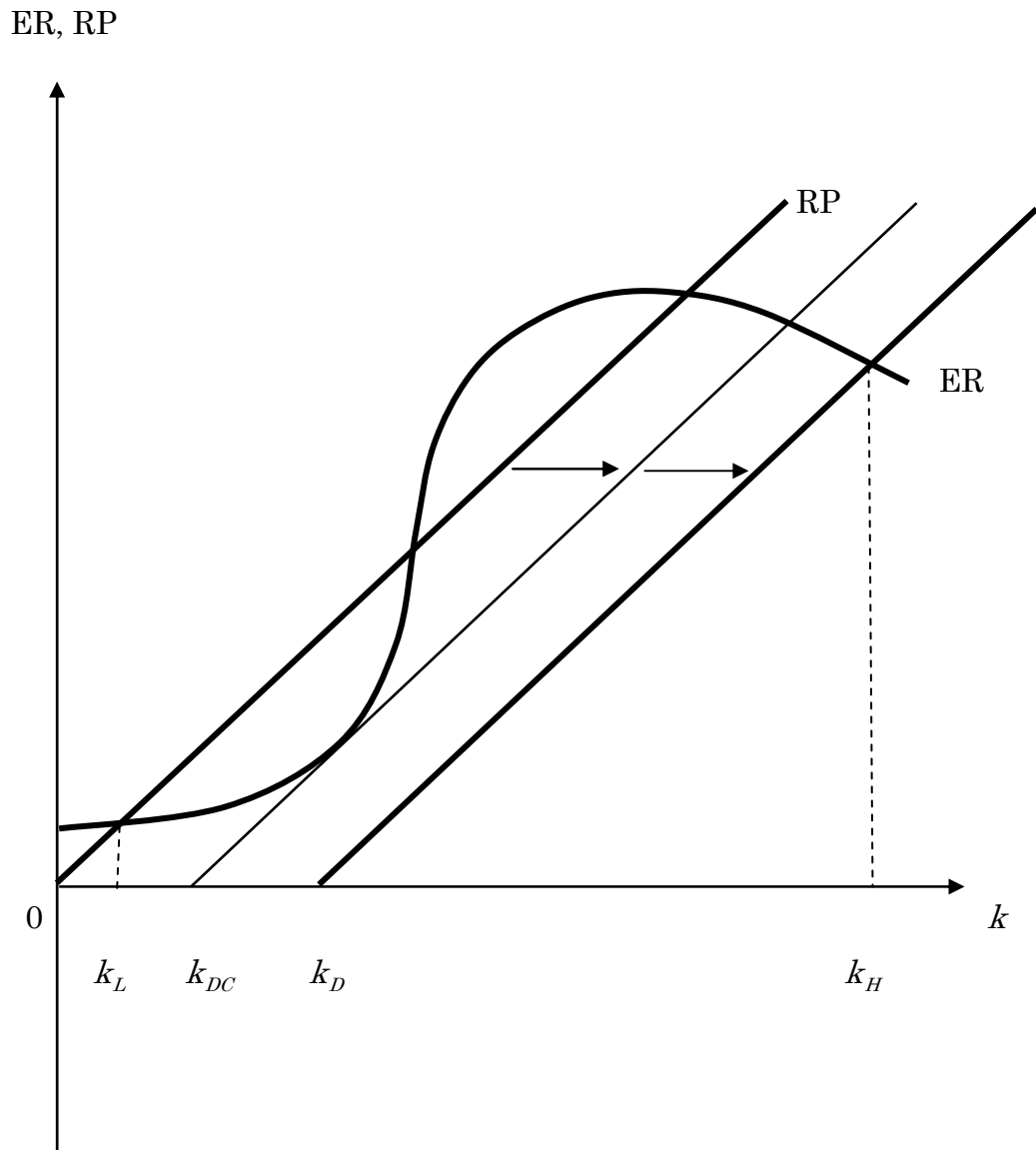


Figure 11 Domestic Capital Accumulation and Capital Market Liberalization



$$\text{Domestic Capital Accumulation} = k_D$$

$$\text{Capital Inflows} = k_H - k_D$$