

Contents

Preface	v
1 Introduction	1
2 Review of Ordinary Differential Equations	5
2.1 First Order Linear Differential Equations	6
2.1.1 First Order Constant Coefficient Linear Differential Equations	7
2.1.2 Variable Coefficient First Order Linear Differential Equations	9
2.1.3 Equations Reducible to Linear Differential Equations	11
2.1.4 Qualitative Solution: Phase Diagrams	12
2.1.5 Some Economic Applications	14
1. Walrasian Tâtonnement Process	14
2. The Keynesian Model	15
3. Harrod Domar's Economic Growth Model	16
4. Domar's Debt Model (1944)	17
5. Profit and Investment	17
6. The Neo-Classical Model of Economic Growth	18
2.2 Second and Higher Order Linear Differential Equations	19
2.2.1 Particular Integral (x_p or x_e) where $d(t) = d$ Constants	24
2.2.2 Particular Integral (x_p) when $d = g(t)$ is some Function of t .	25
1. The Undetermined Coefficients Method	25
2. Inverse Operator Method	26
3. Laplace Transform Method	29
2.3 Higher Order Linear Differential Equations with Constant Coefficients	31
2.4 Stability Conditions	33
2.5 Some Economic Applications	34
1. The IS-LM Model of the Economy	34
2. A Continuous Multiplier-Acceleration Model	35
3. Stabilization Policies	35
4. Equilibrium Models with Stock	37
2.6 Conclusion	38
3 Difference Equations	39
3.1 Introduction	39
3.2 First Order Difference Equations	40
3.2.1 Linear Difference Equations	40

3.2.2	Non-linear Difference Equations and Phase Diagram	42
3.2.3	Some Economic Applications	43
1.	The Cobweb Cycle	43
2.	The Dynamic Multiplier Model	44
3.	The Overlapping Generations Model	44
3.3	Second Order Linear Difference Equations	46
3.3.1	Particular Integral	46
3.3.2	The Complementary Functions $x_c(t)$	47
3.3.3	Complete Solution and Examples	49
3.4	Higher Order Difference Equations	51
3.5	Stability Conditions	57
3.5.1	Stability of First Order Difference Equations	52
3.5.2	Stability of Second Order Difference Equations	52
3.5.3	Stability of Higher Order Difference Equations	53
3.6	Economic Applications	54
3.6.1	Samuelson's (1939) Business Cycle	54
3.6.2	Hick's (1950) Contribution to the Theory of Trade Cycle	55
3.7	Concluding Remarks	57
4	Review of Some Linear Algebra	59
4.1	Vector and Vector Spaces	59
4.1.1	Vector Spaces	60
4.1.2	Inner Product Space	61
4.2	Matrices	62
4.2.1	Some Special Matrices	63
4.2.2	Matrix Operations	64
4.2.3	Matrix Inversion and Applications	65
4.2.4	Rank of a Matrix $r(A)$	66
4.3	Bilinear and Quadratic Forms	67
4.4	Canonical Forms of Matrices	67
4.5	Eigenvalues and Eigenvectors	68
4.5.1	Similar Matrices	70
4.5.2	Real Symmetric Matrices	70
4.6	Diagonalization of Matrices	72
4.7	Jordan Canonical Form	75
4.8	Complex Eigenvalues	76
4.9	Conclusion	77
5	First Order Differential Equations Systems	79
5.1	Introduction	79
5.2	Constant Coefficient Linear Differential Equation (ODE) Systems	79
5.2.1	Case (i). Real and Distinct Eigenvalues	80
5.2.2	Case (ii). Repeated Eigenvalues	83
5.2.3	Case (iii). Complex Eigenvalues	84
5.3	Jordan Canonical Form of ODE Systems	85
5.4	Reduction to First Order of ODE Systems	90

5.5	Fundamental Matrix	91
5.6	Stability Conditions of ODE Systems	92
5.6.1	Asymptotic Stability	92
5.6.2	Global Stability: Liapunov's Second Method	93
5.7	Qualitative Solution: Phase Portrait Diagrams	94
5.8	Some Economic Applications	99
5.8.1	Dynamic IS-LM Keynesian Model	99
5.8.2	Dynamic Leontief Input-Output Model	101
5.8.3	Multimarket Equilibrium	102
5.8.4	Walras-Cassel-Leontief General Equilibrium Model	103
6	First Order Difference Equations Systems	107
6.1	First Order Linear Systems	107
6.2	Jordan Canonical Form	109
	Case (i). Real Distinct Eigenvalues	110
	Case (ii). Multiple Eigenvalues	111
	Case (iii). Complex Eigenvalues	112
6.3	Reduction to First Order Systems	113
6.4	Stability Conditions	115
6.4.1	Local Stability	115
6.4.2	Global Stability	117
6.5	Qualitative Solutions: Phase Diagrams	118
6.6	Some Economic Applications	120
	1. A Multisectoral Multiplier-Accelerator Model	120
	2. Capital Stock Adjustment Model	121
	3. Distributed Lags Model	121
	4. Dynamic Input-Output Model	122
7	Nonlinear Differential Equation Systems	125
7.1	Introduction	125
7.2	Linearization Theory	126
7.2.1	Linearization of Dynamic Systems in the Plane	128
7.2.2	Linearization in Three Dimensions	135
7.2.3	Linearization in Higher Dimensions	136
7.3	Qualitative Solution: Phase Diagrams	139
7.4	Limit Cycles	141
	Economic Application I: Kaldor's Trade Cycle Model	143
7.5	The Liénard-Van der Pol Equations and the Uniqueness of the Limit Cycles	146
	Economic Application II: Kaldor's Model as a Liénard Equation	148
7.6	Conclusion	148
8	Gradient Systems, Lagrangean and Hamiltonian Systems	149
8.1	Introduction	149
8.2	The Gradient Dynamic Systems (GDS)	149
8.3	Lagrangean and Hamiltonian Systems	153

8.4	Hamiltonian Dynamics	155
8.4.1	Conservative Hamiltonian Dynamic Systems (CHDS)	156
8.4.2	Perturbed Hamiltonian Dynamic Systems (PHDS)	159
8.5	Economic Applications: Two-State-Variables Optimal Economic Control Models	162
8.6	Conclusion	164
9	Bifurcation, Chaos and Catastrophes in Dynamical Systems	165
9.1	Introduction	165
9.2	Bifurcation Theory (BT)	165
9.2.1	One Dimensional Bifurcations	167
9.2.2	Hopf Bifurcation	170
9.2.3	Some Economic Applications	172
	1. The Keynesian IS-LM Model	172
	2. A Dynamic Demand Supply Model	173
	3. Generalized Tobin's Model of Money and Economic Growth	173
9.2.4	Bifurcations in Discrete Dynamical Systems	174
9.3	Chaotic or Complex Dynamical Systems (DS)	176
9.3.1	Chaos in Unimodal Maps in Discrete Systems	177
9.3.2	Chaos in Higher Dimensional Discrete Systems	181
9.3.3	Chaos in Continuous Systems	181
9.3.4	Some Economic Applications	182
	1. Chaotic Dynamics in a Macroeconomic Model	182
	2. Erratic Demand of the Rich	184
	3. Chaos in Business Cycles	184
9.4	Catastrophe Theory (CT)	185
9.4.1	Some General Concepts	186
9.4.2	The Morse and Splitting Lemma	187
9.4.3	Codimension and Unfolding	188
9.4.4	Classification of Singularities	189
9.4.5	Some Elementary Catastrophes	190
	9.4.5.1. The Fold Catastrophe	190
	9.4.5.2. The Cusp Catastrophe	191
9.4.6	Some Economic Applications	193
	1. The Shutdown of the Firm (Tu 1982)	193
	2. Kaldor's Trade Cycle	194
9.4.7	Comparative Statics (C.S.), Singularities and Unfolding	196
9.5	Concluding Remarks	198
10	Optimal Dynamical Systems	199
10.1	Introduction	199
10.2	Pontryagin's Maximum Principle	199
	10.2.1 First Variations and Necessary Conditions	201
	10.2.2 Second Variations and Sufficient Conditions	203
10.3	Asymptotic Stability of Optimal Dynamical Systems (ODS)	205
10.4	Structural Stability of Optimal Dynamical Systems	208

10.4.1	Hopf Bifurcation in Optimal Economic Control Models and Optimal Limit Cycles	208
10.4.2	Chaos in Optimal Dynamical Systems (ODS)	211
10.5	Conclusion	213
11	Some Applications in Economics and Biology	215
11.1	Introduction	215
11.2	Economic Applications of Dynamical Systems	215
11.2.1	Business Cycle Theories	215
1.	Linear Multiplier-Accelerator Models	216
2.	Nonlinear Models	217
2.1.	Flexible Multiplier-Accelerator Models	217
2.2.	Kaldor's Type of Flexible Accelerator Models	219
2.3.	Goodwin's Class Struggle Model	219
3.	Optimal Economic Fluctuations and Chaos	220
11.2.2	General Equilibrium Dynamics	220
	Tâtonnement Adjustment Process	221
	Non-Tâtonnement Models	222
11.2.3	Economic Growth Theories	223
1.	Harrod-Domar's Models	223
2.	Neo-Classical Models	223
	Two Sector Models	224
	Economic Growth with Money	225
	Optimal Economic Growth Models	226
	Endogenous Economic Growth Models	226
11.3	Dynamical Systems in Biology	227
11.3.1	One Species Growth Models	228
11.3.2	Two Species Models	229
11.3.2.1	Predation Models	229
11.3.2.2	Competition Models	232
11.3.3	The Dynamics of a Heartbeat	232
11.4	Bioeconomics and Natural Resources	234
11.4.1	Optimal Management of Renewable and Exhaustible Resources	234
11.4.2	Optimal Control of Prey-Predator Models	236
	(i) Control by an Ideal Pesticide	236
	(ii) Biological Control	237
11.5	Conclusion	238
	Bibliography	239