

THE TWO-SECTOR MODEL: GLOSSARY OF NOTATION

Production Side of the Economy

L	labour
K	capital
$f_j(K_j, L_j)$	production function for a firm in sector j
$f(K, L) = K^a L^b$	Cobb-Douglas form of the production function
w	wage rate for labour
r	rental rate for capital
p_j	price of output in sector j
x	output for a firm in sector X
y	output for a firm in sector Y
π_j	profit for a firm in sector j
F_j	quasi-fixed managerial labour requirement for a firm in sector j
$\hat{K}_Y(y, w, r)$	conditional demand for capital by a firm in sector Y
$\hat{L}_Y(y, w, r)$	conditional demand for labour by a firm in sector Y
$\hat{K}_X(x, w, r)$	conditional demand for capital by a firm in sector X
$\hat{L}_X(x, w, r)$	conditional demand for labour by a firm in sector X
$c_Y(y, w, r)$	cost function for a firm in sector Y
$c_X(x, w, r)$	cost function for a firm in sector X
$MC_Y(y, w, r)$	marginal cost function for a firm in sector Y
$MC_X(x, w, r)$	marginal cost function for a firm in sector X
$AC_Y(y, w, r)$	average cost function for a firm in sector Y
$AC_X(x, w, r)$	average cost function for a firm in sector X
$y(p_Y, w, r)$	supply (or output) function for a firm in sector Y
$x(p_X, w, r)$	supply (or output) function for a firm in sector X
$K_Y(p_Y, w, r)$	demand for capital by a firm in sector Y

$L_Y(p_Y, w, r)$	demand for labour by a firm in sector Y
$K_X(p_X, w, r)$	demand for capital by a firm in sector X
$L_X(p_X, w, r)$	demand for labour by a firm in sector X
$\pi_Y(p_Y, r, w)$	profit function for a firm in sector Y
$\pi_X(p_X, r, w)$	profit function for a firm in sector X
n_Y	number of firms in sector Y
n_X	number of firms in sector X
$S_Y(p_Y, w, r)$	aggregate supply (or output) function for sector Y
$S_X(p_X, w, r)$	aggregate supply (or output) function for sector X
$D_K^Y(p_Y, w, r)$	aggregate demand for capital by sector Y
$D_L^Y(p_Y, w, r)$	aggregate demand for labour by sector Y
$D_K^X(p_X, w, r)$	aggregate demand for capital by sector X
$D_L^X(p_X, w, r)$	aggregate demand for labour by sector X
$\Pi_Y(p_Y, w, r)$	aggregate profit in sector Y
$\Pi_X(p_X, w, r)$	aggregate profit in sector X

Consumption Side of the Economy

N	number of individuals
\bar{L}_i	endowment of potential labour for individual i
\bar{K}_i	endowment of capital for individual i
θ_{ij}	share of aggregate profits from sector j flowing to individual i
$d_i(p_X, p_Y, w, r)$	total flow of profits (or dividend) to individual i
$M_i(p_X, p_Y, w, r)$	wealth of individual i
x_i	consumption of good x by individual i
y_i	consumption of good y by individual i
l_i	leisure consumed by individual i
$u_i(x_i, y_i, l_i)$	utility for individual i
$u(x, y, l) = x^\alpha y^\beta l^\delta$	Cobb-Douglas form of the utility function
$y(p_X, p_Y, w, r)$	demand for (or consumption of) good y by an individual
$x(p_X, p_Y, w, r)$	demand for (or consumption of) good x by an individual
$l(p_X, p_Y, w, r)$	demand for (or consumption of) leisure by an individual
$L(p_X, p_Y, w, r)$	labour supply for an individual
\tilde{L}	aggregate potential labour endowment for the economy
\tilde{K}	aggregate capital endowment for the economy
$V(p_X, p_Y, w, r)$	aggregate wealth of all individuals in the economy
$D_Y(p_X, p_Y, w, r)$	aggregate demand for good y
$D_X(p_X, p_Y, w, r)$	aggregate demand for good x
$S_L(p_X, p_Y, w, r)$	aggregate supply of labour