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Two Sector Models of Open Economies A Synthesis & An Empirical Application1

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Some well-known two-sector models of industrial countries exhibit a crowding out effect or relationship between the main sectors of the economy. This is true of the Small Open Economy, traded-non-traded good model without nominal wage rigidity, and for the model of the Dutch Disease. In contrast, important models of semi-industrialized countries, or even emerging markets, such as the Bose Model, portray a complimentary relation between the various sectors. This paper discusses a possible synthesis between these differing model specifications, and tests the applicability of these models for a large sample of industrial countries, emerging markets and developing economies by analyzing the inter-linkages in their sector growth patterns.

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