
WORKING PAPER 137/2016

**CONSUMER'S ACCEPTANCE TOWARDS
GENETICALLY MODIFIED CROPS AND
GROWTH OF THE ECONOMY: A
THEORETICAL APPROACH**

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January 2016

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Price : Rs. 35

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Consumer's Acceptance towards Genetically Modified Crops and Growth of the Economy: A Theoretical Approach

Amrita Chatterjee and Arpita Ghose

Abstract

This paper develops a three-sector theoretical growth model to capture the role of consumers' acceptance towards the second generation of genetically modified (GM) crops in the long run growth process of the economy. An Acceptance (towards GM crop) parameter is defined as a ratio of consumption of GM to traditional variety of food, whose growth rate is determined by growth rate of human capital. Dynamic stability of the system is ensured provided the value of acceptance parameter is within a certain range. A range of the acceptance parameter is also obtained which ensures not only the dynamic stability of the system but also ensures higher rate of growth of an economy that produces both GM and non-GM crops compared to an economy that does not produce GM crops.

Keywords: *consumer acceptance, dynamic optimization, economic growth, genetically modified crop*

JEL Codes: *O41, Q16, C61, C62*

ACKNOWLEDGEMENT

The authors are thankful to the anonymous referee for valuable comments.

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INTRODUCTION

The extensive adoption of GM crops since 1996 has provided enough evidence in favor of and against Agricultural Biotechnology. There is no doubt about the fact that GM crops have been successful in raising production level, reducing cost and therefore been able to provide significant economic benefit at the farm level over the years (Brookes and Barfoot (2013) and Barrows *et. al.* (2014)). However, Mathiowetz and Jones (2016) have rightly pointed out that even if the scientific community has accepted the safety of Genetically Modified (GM) crops, the consumers are still skeptical about consumption of GM food on factors such as religion, education, socio-economic status, safety, and personal assessment of the risk–benefit ratio.

The first generation of GM crops provided improved agronomic traits such as tolerance of specific chemical herbicides and resistance to pests and diseases (James, 2003), providing direct benefits to the producer through increased profitability by increasing factor input productivity i.e. reducing factor cost (Marra *et. al.*, 2002). The meta-analysis performed by Klumper and Qaim (2014) has showed that *"on average GM technology adoption has reduced chemical pesticide use by 37 percent, increased crop yields by 22 percent, and increased farmer profits by 68 percent. Yield gains and pesticide reductions are larger for insect-resistant crops than for herbicide-tolerant crops. Yield and profit gains are higher in developing countries than in developed countries."* USA, Brazil, Argentina, India and Canada are the top 5 countries followed by China and Paraguay in terms of area under cultivation of GM crops. As per James (2014) farmers from developing countries of Latin America, Asia and Africa together grew 53 percent of the global biotech hectares compared to industrial countries, which grew 47 percent, equivalent to a gap of 11 million hectares in favor of developing countries. The 5 leading biotech developing countries Brazil, Argentina, India, China, and South

Africa, grew 47 percent of global biotech crops. However, unlike farmers, who have been benefited and quickly adopted the transgenic plants such as Bt cotton and corn and herbicide-resistant soybeans (Economic Research service, 1999), consumers have reservations about the foods produced from these crops. Introduction of the so-called first generation of GM crops met with consumer resistance on health, environmental, moral and philosophical concerns (Hobbs and Plankett, 1999; Lindner, 2000). This led to a second generation of genetic modification seeking also to improve various attributes of GM crops to provide direct benefit to the final consumer such as enhanced nutritional content, improved durability and less pesticide application (Kishore and Shewmaker, 1999), such as Golden Rice. It is a GM variety, in which beta-carotene (Vit A) synthesizing gene introduced through genetic engineering technique, that may not improve farm productivity but can improve health significantly by providing pro-vitamin A (Dawe, Robertson and Unnevehr (2002), Zimmermann and Qaim (2004)). Thus the distinct benefits provided by the GM food which are not available in non-GM food are going to be critical in forming consumers' preference for GM products (House *et. al.*, 2002).

From Smale *et. al.* (2006) we find a detailed review of literature in the context of both industrialized and non-industrialized agricultural countries which are either based on surveys conducted to examine consumers' concern or evaluation of consumers' willingness to pay for GM food based on stated preference method. The conclusions of the studies are mixed in non-industrialized countries with some consumers being concerned about the consumption of GM Food and some being open to it. In industrialized countries also some consumers are willing to pay price premium for non-GM food (Huffman *et. al.*, 2003) or demanding discount for consuming GM food (Grimsrud *et. al.*, 2004), though most of the studies conclude in favor of acceptance of GM crops. For more recent studies reference can be made to Nayga *et. al.* (2006), Jan *et. al.* (2008), Kimenju and Groote (2008) etc. Some studies have

also focused on the welfare effect of the labeling policy or information on genetic modification on consumer welfare (Fulton and Giannakas, 2002; Huffman, 2003; Lusk *et. al.*, 2005; Carlsson *et. al.*, 2007). Later on Colson and Rousu (2013) have provided a nice review of the empirical contribution of researchers over last 15 years towards consumers' willingness to pay for GM food based on survey and experimental methods.¹ They have tried to cover a number of unresolved issues on consumer preferences. Moreover, there are few more studies which have exclusively focused on the consumers' attitude towards GM crops in developing countries; for example, Deodhar *et. al.* (2008); Qiu *et. al.* (2011); Mandal and Paul (2012); Kajale and Becker (2014); Kajale and Becker (2015); Kajale and Becker (2015a); Amin and Hashim (2016); Ma and Gan (2016).

Consumers seem to be more inclined towards GM crops with some beneficial attribute such as higher nutritional content or less allergic. Anderson *et. al.* (2004) has captured the essence of enhanced nutritional value of second generation of GM crop. Miles *et. al.* (2006) have shown in their survey based study on consumers that intention to purchase genetically modified food with specific benefits such as 'low-allergen food' was higher than intention to purchase an unspecified genetically modified food. Giannakas and Yiannaka (2008) have also introduced consumer-oriented second generation of GM crops in the food system to see the effect of horizontal and vertical product differentiation on heterogeneous consumers. Most recently a study by Steur *et. al.* (2016) provides a systematic review of the literature on consumer acceptance of, and willingness-to-pay for, GM crops with enhanced vitamin levels. This study classifies the key determinants of acceptance and willingness-to-pay into five categories: socio-demographic variables, knowledge, attitudinal and behavioral determinants, and information. Labeling facility also plays an important role in forming consumers'

¹ Also refer to Varzakas and Tzanidis (2016).

attitude towards adoption of GM crops as that helps them to make an informed purchase (Gruère *et. al.* (2008); Sleenhoff and Osseweijer (2013); Vecchione *et. al.* (2014)). However, the study of existing literature shows that there is dearth of theoretical literature that tries to explain the role of consumers' acceptance towards the consumer-oriented 2nd generation of GM crops in the long run growth process of the economy. This paper attempts to analyze the same through the formulation of a growth model. Here we have avoided any complication arising out of alternative labeling regimes and segregation enforcement regulations.

A three-sector growth model has been considered with one genetically modified food crop producing sector, one traditional agricultural sector (non-GM) and a manufacturing sector. As per Curtis *et. al.* (2004) the consumers in developing countries are more inclined towards GM crops than developed countries as benefits like cost reduction, yield-increase and nutritional enhancement dominate their risk perceptions. Thus the highlighting feature of GM crop considered here is higher nutritional content (e.g. Golden Rice), thereby enticing the consumers to put positive value on it, which is captured by a positive acceptance parameter. In the demand side of the economy the role of human capital has been introduced to determine the consumers' acceptance towards GM crop. We have defined an Acceptance parameter as a ratio of consumption of GM to non-GM (traditional variety) food and growth rate of this parameter is determined by growth rate of human capital. The representative consumer maximizes the discounted flow of instantaneous utility over an infinite time horizon to get the growth rates of GM food, non-GM food and Manufacturing goods respectively. As the growth rates of GM and non-GM food depend on the acceptance parameter and also on the growth rate of human capital, we are able to put some restriction on the acceptance parameter for ensuring global dynamic stability. Moreover, we have got a range for the acceptance parameter for which the dynamic stability of the equilibrium is ensured as

well as a higher rate of growth of total consumption expenditure is possible in presence of GM crop compared to an economy without producing GM crop. The rest of the present paper is organized as follows. In section two we describe the basic features of the model. The section three is concerned with analyzing the consumer's allocation problem. The steady state solution of the model is analyzed in section four. The stability properties of the model are in section five. In section six we have compared two economies, one with GM food and another without the same. Some concluding observations are made in the final section.

MODEL

The economy is composed of three sectors, two agricultural sectors, one producing a Genetically Modified (GM) food product and the other producing a traditional variety and one manufacturing sector (does not use any GM product). All the three sectors use labor and the population size of each type of producer is normalized to unity. The production functions of GM and non-GM sectors are given by:

$$Y^{GM} = \mu_1 H \cdot f(L_1, Z_1)$$

and

$$Y^{NGM} = \mu_2 H \cdot f(L_2, Z_2)$$

Here Y^{GM} and Y^{NGM} are the agricultural output using GM seed and traditional variety of seeds respectively. L_i is the labor endowment, Z_i is the composite input other than labor and H is human capital. H represents a composite variable, which includes scientists who are engaged in research and development activities in the laboratories and the amount devoted to R and D expenditure. μ_i is the parameter which signifies the fraction of human capital going to i th sector. As different sectors require different amount of deployment of Human Capital, this parameter has different values for different sectors.

The representative producers of both GM and non-GM crop consume whatever they produce; hence they do not save or invest. That is why there is no capital accumulation from this productive activity. Hence physical capital does not enter their production function as an input. However, capital accumulation in this model originates from the manufacturing sector. The production function of the manufacturing sector is as follows,

$$Y^M = \mu_3 H \cdot f(L_3, K)$$

Here Y^M is the output of the manufacturing sector which employs physical capital (K) and labor (L_3). Here μ_3 signifies the fraction of human capital going to the manufacturing sector.

In the demand side of the economy, the representative household is assumed to maximize her discounted flow of instantaneous utility over an infinite time horizon. Here we assume that each of the three types of producer consumes all the three commodities. Let the instantaneous utility function² be

$$U = \delta_1 \ln c_t^M + \delta_2 \ln c_t^{GM} + \delta_3 \ln c_t^{NGM} \quad (1)$$

where c_t^M, c_t^{GM} and c_t^{NGM} respectively denote per capita consumption of manufacturing, GM food and traditional food at time t and δ_i the proportion of expenditure spent on i th good, $\forall i = 1, 2, 3$. Here we define A_t which is an indicator, suitably constructed showing the degree of acceptance of the consumer towards Genetically Modified

² This is an additively separable utility function, which is chosen keeping in mind the allocation of expenditure among the commodities.

crops. A_t is the ratio in which GM and NGM food are consumed i.e.

$$A_t = \frac{c_t^{GM}}{c_t^{NGM}} > 0.$$

Intuitively, A_t is an attribute. Consumer has a perception about the acceptability of GM food which is captured by this attribute. A_t grows over time following a dynamic growth path. Now, it can be assumed that the acceptance of GM product is dependent on scientific investigation of pros and cons of the GM food and the dissemination of the knowledge to the users by the private individuals, the social planners and the personnel working in the extension division of the respective country. Here lies the role of human capital, which can be used in RandD activities to investigate the benefits available from GM food and to spread that information among the consumers. Thus the level of human capital (H) prevailing in the economy will influence the movement of acceptance parameter. As the level of human capital and knowledge increase, the probability of accepting the new GM product increases.

Thus, we assume that the movement of A_t is determined by the accumulation of human capital i.e.

$$\frac{\dot{A}_t}{A_t} = \frac{\dot{H}}{H} = h \quad (2)$$

Now, let us assume that the saving propensities of the three types of producers are s_1, s_2 and s_3 . As per our model, $s_1, s_2 = 0$ and $s_3 = \dot{K}_t$. Thus the composite budget constraint of the representative consumer of the economy can be given by,

$$\begin{aligned}
\frac{r_t \cdot K_t}{P_t^M} + \frac{w_t \cdot L_t}{P_t^M} &= C_t^M + \frac{P_t^{NGM}}{P_t^M} \cdot C_t^{NGM} + \frac{P_t^{GM}}{P_t^M} \cdot C_t^{GM} + \dot{K}_t \\
\Rightarrow \frac{\dot{K}_t}{K_t} &= \left(\frac{r_t}{P_t^M} \right) + \left(\frac{w_t / P_t^M}{K_t / L_t} \right) - \frac{C_t^M / L_t}{K_t / L_t} - P_{1t} \frac{C_t^{NGM} / L_t}{K_t / L_t} - P_{2t} \frac{C_t^{GM} / L_t}{K_t / L_t} \\
\Rightarrow \frac{\dot{K}_t}{K_t} &= \left(\frac{r_t}{P_t^M} \right) + \frac{w_t / P_t^M}{k_t} - \frac{c_t^M}{k_t} - P_{1t} \frac{c_t^{NGM}}{k_t} - P_{2t} \frac{c_t^{GM}}{k_t}
\end{aligned}$$

where $r'_t = \frac{r_t}{P_t^M}$, $w'_t = \frac{w_t}{P_t^M}$, r_t = nominal rate of return to

capital, w_t = nominal wage rate, n = population growth rate, r'_t = real return on capital and $k_t = \frac{K_t}{L_t}$ = capital per capita, w'_t = real wage rate,

C_t^{GM} , C_t^{NGM} and C_t^M are consumption of GM, non-GM and manufacturing commodities respectively. P_t^{GM} , P_t^{NGM} and P_t^M are respectively the prices of the three commodities. Using price of manufacturing good as numeraire we get,

$$P_{1t} = \frac{P_t^{NGM}}{P_t^M}, P_{2t} = \frac{P_t^{GM}}{P_t^M}$$

Per capita consumption and capital stock are given by,

$$c_t^{GM} = \frac{C_t^{GM}}{L_t}, c_t^{NGM} = \frac{C_t^{NGM}}{L_t}, c_t^M = \frac{C_t^M}{L_t}, k_t = \frac{K_t}{L_t}$$

Now,

$$\frac{\dot{k}_t}{k_t} = \frac{\dot{K}_t}{K_t} - \frac{\dot{L}_t}{L_t}$$

$$\Rightarrow \frac{\dot{k}_t}{k_t} =$$

$$\left(\frac{r_t}{P_t^M} \right) + \frac{w_t/P_t^M}{k_t} - \frac{c_t^M}{k_t} - P_{1t} \frac{c_t^{NGM}}{k_t} - P_{2t} \frac{c_t^{GM}}{k_t} - n$$

$$\Rightarrow \dot{k}_t = r'_t k_t + w'_t c_t^M - P_{1t} c_t^{NGM} - P_{2t} c_t^{GM} - n k_t \quad (3)$$

$$n = \frac{\dot{L}_t}{L_t}, r'_t = \frac{r_t}{P_t^M}, w'_t = \frac{w_t}{P_t^M}$$

Thus equation (3) gives the dynamic budget constraint of the representative consumer.

CONSUMER OPTIMIZATION

The dynamic optimization problem of the representative consumer can be stated as the

Maximize $\int_0^\infty (\delta_1 \ln c_t^M + \delta_2 \ln c_t^{GM} + \delta_3 \ln c_t^{NGM}) e^{-rt} dt$

subject to the dynamic budget constraint given by:

$$\dot{k}_t = r'_t k_t + w'_t c_t^M - P_{1t} c_t^{NGM} - P_{2t} c_t^{GM} - n k_t$$

The consumer's problem is solved by maximizing the following current value Hamiltonian:

$$H_c = [\delta_1 \ln c_t^M + \delta_2 \ln(A_t c_t^{NGM}) + \delta_3 \ln c_t^{NGM}] + \lambda_{k_t} [r_t k_t + w_t' - c_t^M - P_{1t} c_t^{NGM} - P_{2t} A_t c_t^{NGM} - n k_t]$$

Here c_t^M and c_t^{NGM} are the two control variables, k_t is the state variable whereas λ_{k_t} is the co-state variable.

The first order optimality conditions for maximization of H_c are

$$\begin{aligned} \frac{\partial H_c}{\partial c_t^{NGM}} &= 0 \\ \frac{\partial H_c}{\partial c_t^M} &= 0 \\ \dot{\lambda}_{k_t} &= -\frac{\partial H_c}{\partial k_t} + \rho \lambda_{k_t} \end{aligned} \tag{5}$$

It can be shown that equations (5) along with the transversality condition

$$\lambda_{k_t} e^{-\rho t} \rightarrow 0, \text{ as } t \rightarrow \infty \tag{6}$$

are a necessary characterization of the optimum path solving the consumer's problem. Using (5) we derive the following equations of motion³:

$$^3 \frac{\dot{c}_t^{GM}}{c_t^{GM}} = \frac{\dot{A}_t}{A_t} + \frac{\dot{c}_t^{NGM}}{c_t^{NGM}}$$

$$\frac{\dot{c}_t^{NGM}}{c_t^{NGM}} = [(r'_t - n) - \rho] - \frac{h \cdot A_t}{P_{1t} / P_{2t} + A_t} \quad (7)$$

$$\frac{\dot{c}_t^M}{c_t^M} = [(r'_t - n) - \rho] \quad (8)$$

$$\frac{\dot{c}_t^{GM}}{c_t^{GM}} = [(r'_t - n) - \rho] - \frac{h \cdot A_t}{P_{1t} / P_{2t} + A_t} + h \quad (9)$$

STEADY STATE

In the steady state the per capita capital stock and the level of consumption per capita of all the three goods are constant. We denote the steady state values of these variables as k^* , c_{GM}^* , c_{NGM}^* and c_M^* .

The Modified Golden Rule:

With $\frac{\dot{c}_t^{GM}}{c_t^{GM}} = \frac{\dot{c}_t^{NGM}}{c_t^{NGM}} = \frac{\dot{c}_t^M}{c_t^M} = \frac{\dot{A}_t}{A_t} = \frac{\dot{k}}{k} = 0$, we have the modified golden rule relationship:

$$r'_t = n + \rho \quad (10)$$

This implies that the real interest rate in steady state is equal to the sum of the discount rate and growth rate of population. Thus the taste and population growth determine the real interest rate ($n + \rho$) and

technology then determines the capital stock and level of consumption consistent with that interest rate.

STABILITY PROPERTIES

We now analyze the stability properties of the system and describe the regions in the parameter space which yield unique equilibrium. For computational convenience we redefine our utility function as,

$U = U(c_t)$, where

$$c_t = c_t^M + P_{1t}c_t^{NGM} + P_{2t}c_t^{GM} \quad (11)$$

and

$$\begin{aligned} \dot{c}_t = & (r'_t - n - \rho)(c_t - P_{1t}c_t^{NGM} - P_{2t}c_t^{GM}) + \\ & P_{1t} \left[(r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right] (c_t - c_t^M - P_{2t}c_t^{GM}) + \\ & + P_{2t} \left[\frac{\dot{A}_t}{A_t} + (r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right] (c_t - c_t^M - P_{1t}c_t^{NGM}) \end{aligned} \quad (12)$$

We consider the reduced system consisting of 2 differential equations described by equations (12) and (3). The system can be represented in matrix form as follows:

$$\begin{bmatrix} \dot{c}_t \\ \dot{k}_t \end{bmatrix} = \begin{bmatrix} (r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right\} & 0 \\ -1 & r'_t - n \end{bmatrix} \begin{bmatrix} c_t \\ k_t \end{bmatrix} + \begin{bmatrix} C_1 \\ C_2 \end{bmatrix}$$

⁴ See the Appendix.

C_1 and C_2 consist of some terms other than the coefficients of the variables concerned and Jacobian matrix or coefficient matrix is given by

$$J = \begin{bmatrix} (r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} & 0 \\ -1 & r'_t - n \end{bmatrix}$$

The necessary and sufficient conditions for dynamic stability are negative trace of the coefficient matrix [J] accompanied by positive determinant of the matrix. Since our system is linear to begin with, the elements of the coefficient matrix are a set of constants. So there is no need to evaluate them at the equilibrium. Since there is no approximation process involved, the stability inferences will no longer be local but will have global validity.

Condition for Dynamic Stability

Trace of the Jacobian matrix is given by

Trace [J] =

$$(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + (r'_t - n)$$

For Trace [J] < 0, we need,

$$\frac{P_{1t}}{P_{2t}} \left[\frac{(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} h + (r'_t - n)}{P_{1t} h - (r'_t - n - \rho)(1 + P_{1t} + P_{2t}) - (r'_t - n)} \right] < A_t$$

Now, determinant of the Jacobian matrix is given by,

$$|J| = [(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} A_t}{P_{1t} + P_{2t} A_t} \right\}] (r'_t - n)$$

For $|J| > 0$, either of the following two cases are feasible.

Case 1: Both $(r'_t - n) < 0$ and

$$(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} A_t}{P_{1t} + P_{2t} A_t} \right\} < 0$$

The second condition leads us to the following condition;

$$\frac{P_{1t}}{P_{2t}} \left[\frac{(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} h}{P_{1t} h - (r'_t - n - \rho)(1 + P_{1t} + P_{2t})} \right] < A_t$$

Thus combining the two conditions we get:

$$i > r'_t < n \quad (13)$$

$$ii > \frac{P_{1t}}{P_{2t}} \left[\frac{(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} h}{P_{1t} h - (r'_t - n - \rho)(1 + P_{1t} + P_{2t})} \right] < A_t \quad (14)$$

Case 2: Both $(r'_t - n) > 0$

and

$$(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} A_t}{P_{1t} + P_{2t} A_t} \right\} > 0$$

But if both of these expressions become positive, then their sum can never be negative. Since sum of these two terms is equal to the trace of the J matrix, it can not be negative for ensuring dynamic stability. Thus if the above two conditions hold the simultaneous

fulfillment of Trace $[J] < 0$ and $|J| > 0$ will not be possible. So we discard this case.

Thus simultaneous fulfillment of (13) and (14) ensure the dynamic stability of the equilibrium which in turn put a restriction on the acceptance parameter. Therefore the consumers' acceptance parameter has an important role to play in the dynamic stability of the equilibrium. Here we note that, since GM crops are not very widely consumed all over the world, its demand will not be very high. That is why we are getting a particular range for the acceptance parameter.

COMPARISON OF TWO ECONOMIES: ONE PRODUCING BOTH GM AND NON-GM FOOD AND THE OTHER NOT PRODUCING GM FOOD

Let there be an economy consisting of only two sectors, one producing only traditional agricultural good and another one producing a manufacturing good. Now we define the total consumption $(c_t)_1$ of the representative consumer as:

$$(c_t)_1 = (c_t^M)_t + \tilde{P}_{1t} (c_t^{NGM})_1 \quad (15)$$

where $(c_t^M)_t$ is the per capita consumption of manufacturing good and $(c_t^{NGM})_1$ is per capita consumption of traditional agricultural commodity. \tilde{P}_{1t} is the relative price of agricultural commodity with respect to the price of manufacturing good. Here we assume that all the parameters in this economy are identical with that of the economy described in the earlier sections. However, since it does not produce the GM food, there is no acceptance parameter and human capital. The consumer's dynamic optimization of the utility function

$$U = \delta_1 \ln c_t^M + \delta_2 \ln c_t^{NGM}$$

subject to the dynamic budget constraint,

$$\dot{k}_t = r_t' k_t + w_t' - c_t^M - \tilde{P}_{1t} c_t^{NGM} - n k_t$$

leads us to following growth rates of non-GM and manufacturing good:

$$\frac{(\dot{c}_t^{NGM})_1}{(c_t^{NGM})_1} = [(r_t' - n) - \rho] , \quad \frac{(\dot{c}_t^M)_1}{(c_t^M)_1} = [(r_t' - n) - \rho] \quad (16)$$

Now, differentiating equation (15) we get,

$$(\dot{c}_t)_1 = (\dot{c}_t^M)_1 + \tilde{P}_{1t} (\dot{c}_t^{NGM})_1 \quad (17)$$

Dividing (17) by $(c_t)_1$ we get the growth rate of total consumption of this economy as

$$\frac{(\dot{c}_t)_1}{(c_t)_1} = \frac{(\dot{c}_t^M)_1}{(c_t)_1} + \tilde{P}_{1t} \frac{(\dot{c}_t^{NGM})_1}{(c_t)_1} \quad (18)$$

Now, differentiating equation (11) we get,

$$\dot{c}_t = \dot{c}_t^M + P_{1t} \dot{c}_t^{NGM} + P_{2t} \dot{c}_t^{GM} \quad (19)$$

Dividing (19) by the (c_t) we get the growth rate of total consumption in the economy producing all the three goods ie manufacturing good, GM food and NGM food as

$$\frac{\dot{c}_t}{c_t} = \frac{\dot{c}_t^M}{c_t} + P_{1t} \frac{\dot{c}_t^{NGM}}{c_t} + P_{2t} \frac{\dot{c}_t^{GM}}{c_t} \quad (20)$$

Now, higher growth rate of total consumption expenditure will also imply higher growth rate of the economy. The growth rate of consumption for the economy with GM food will be greater than the

growth rate of consumption for the economy without GM food if, $\frac{\dot{c}_t}{c_t} - \frac{(c_t)_1}{(c_t)_1} > 0$, which in turn puts a restriction on the acceptance parameter:

$$\frac{P_{1t} \left[[(r'_t - n - \rho)(\gamma_M - \gamma_{M_1}) + (P_{1t}\gamma_{NGM} - \tilde{P}_{1t}\gamma_{NGM_1}) + P_{2t}\gamma_{GM}] + P_{2t}h\gamma_{GM} \right]}{P_{2t} \left[P_{1t}h\gamma_{NGM} - (r'_t - n - \rho)(\gamma_M - \gamma_{M_1}) + (P_{1t}\gamma_{NGM} - \tilde{P}_{1t}\gamma_{NGM_1}) + P_{2t}\gamma_{GM} \right]} > A_t \quad (21)$$

where, $\gamma_M = \frac{c_t^M}{c_t}$, $\gamma_{M_1} = \frac{(c_t^M)_1}{(c_t)_1}$, $\gamma_{NGM} = \frac{c_t^{NGM}}{c_t}$, $\gamma_{NGM_1} = \frac{(c_t^{NGM})_1}{(c_t)_1}$ and $\gamma_{GM} = \frac{c_t^{GM}}{c_t}$

Thus combining (14) and (21) we get a range for the acceptance parameter which not only ensures dynamic stability but also implies a higher growth rate of the economy in presence of GM food as,

$$\frac{P_{1t} \left[(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t}h \right]}{P_{2t} \left[P_{1t}h - (r'_t - n - \rho)(1 + P_{1t} + P_{2t}) \right]} < A_t < \frac{P_{1t} \left[[(r'_t - n - \rho)(\gamma_M - \gamma_{M_1}) + (P_{1t}\gamma_{NGM} - \tilde{P}_{1t}\gamma_{NGM_1}) + P_{2t}\gamma_{GM}] + P_{2t}h\gamma_{GM} \right]}{P_{2t} \left[P_{1t}h\gamma_{NGM} - (r'_t - n - \rho)(\gamma_M - \gamma_{M_1}) + (P_{1t}\gamma_{NGM} - \tilde{P}_{1t}\gamma_{NGM_1}) + P_{2t}\gamma_{GM} \right]} \quad (22)$$

However, we also need condition (13) i.e. $r_t' < n$ to ensure dynamic stability. This result reinforces the importance of the acceptance parameter in this analysis.

CONCLUSION

This paper models the environment-friendly second generation of GM crops to analyze the role of consumers' acceptance towards GM crops in the long run growth process of the economy. Here, it is assumed that the movement of the acceptance parameter is driven by the accumulation of the human capital in the economy. The dynamic optimization exercise of the representative consumer in infinite horizon framework shows that the growth rates of the GM and non-GM food depend on the acceptance parameter as well as on the growth rate of human capital. We have obtained the golden rule steady state solution where the real interest rate in steady state is equal to the sum of the discount rate and growth rate of population. Dynamic stability of the system is ensured provided certain restrictions on the acceptance parameter are fulfilled. We have also been able to get a range of the acceptance parameter which ensures not only the dynamic stability of the system but also ensures higher rate of growth of an economy that produces both GM and non-GM crops compared to an economy that does not produce GM crops. These results all the more highlight the importance of the role of consumers' acceptance of GM crops. However, there are certain limitations of this paper which can be incorporated in future. The paper does not incorporate variable like the area under GM crop in a growth maximizing or welfare maximizing framework. Moreover, different modes of financing R and D expenditure by the public sector as well as by the private sector can be incorporated. The effects of these alternative modes of financing can be compared. Another important aspect that could not be taken care of in order to keep our model simple is the issue of labeling policy.

Existing literature has given a detailed description of the impact of Agricultural Biotechnology on output and prices, environment and human health touching upon the issue of intellectual property rights as well. This paper, of course, has taken recourse to the environmentally sustainable and human health enhancing positive attributes of Genetically Modified food crops, though we acknowledge that there is a school of thought which has strong reservation against the commercial production of such crops (Dona and Arvanitoyannis, 2009; Kim, 2014). Even if the environmentalists are concerned about negative effects of transgenes used to develop genetically modified organisms, Bakshi (2003) has reviewed the literature to show that GM crops available in the market that are intended for human consumption are generally safe and consumption of them does not bring any serious health issue. Thus it is an open debate that requires scientific investigations and therefore has got much attention in the economic literature (Domingo and Bordonaba; 2011; Delaney, 2015). Thus prolonged application on animals and clinical trials are required before the release of GM crops into the environment. Moreover, the approval of GM foods for commercial use by the Government authorities and formulation of relevant policies should be based on strict scientific assessments of benefits and risks of these crops, rather than being influenced by the campaigning of the so called public interest groups. Thus the acceptance of GM product is dependent on scientific investigation of pros and cons of the GM food and the dissemination of the knowledge to the users by the private individuals, the social planners and the personnel working in the extension division of the respective country. It makes the role of human capital all the more significant.

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Appendix

I. CONSUMER'S OPTIMIZATION

The current value Hamiltonian is given by:

$$H_c = [\delta_1 \ln c_t^M + \delta_2 \ln(A_t c_t^{NGM}) + \delta_3 \ln c_t^{NGM}] + \lambda_{kt} [r_t' k_t + w_t' - c_t^M - P_{1t} c_t^{NGM} - P_{2t} A_t c_t^{NGM} - nk_t] \quad (\text{A.1})$$

Applying the maximum principle to the current value Hamiltonian we obtain:

The first order optimality conditions for maximization of H_c are

$$\frac{\partial H_c}{\partial c_t^{NGM}} = 0 \Rightarrow \lambda_{kt} = \frac{\delta_1 + \delta_2}{c_t^{NGM} (P_{1t} + A_t P_{2t})} \quad (\text{A.2})$$

$$\frac{\partial H_c}{\partial c_t^M} = 0 \Rightarrow \lambda_{kt} = \frac{\delta_1}{c_t^M} \quad (\text{A.3})$$

$$\dot{\lambda}_{k_t} = -\frac{\partial H_c}{\partial k_t} + \rho \lambda_{k_t} \quad (\text{A.4})$$

From (A.2)

$$\dot{\lambda}_{k_t} = -\frac{(\delta_1 + \delta_2) \dot{c}_t^{NGM}}{(c_t^{NGM})^2 (P_{1t} + A_t P_{2t})} - \frac{(\delta_1 + \delta_2) P_{2t} \dot{A}_t}{c_t^{NGM} (P_{1t} + A_t P_{2t})^2} \quad (\text{A.5})$$

$$\frac{\partial H_c}{\partial k_t} = \lambda_{k_t} \cdot (r'_t - n) = \frac{\delta_1 + \delta_2}{c_t^{NGM} (P_{1t} + A_t P_{2t})} \cdot (r'_t - n) \quad (\text{A.6})$$

From (A.4) and (A.6) we get,

$$\dot{\lambda}_{k_t} = \frac{\delta_1 + \delta_2}{c_t^{NGM} (P_{1t} + A_t P_{2t})} \cdot \rho - \frac{\delta_1 + \delta_2}{c_t^{NGM} (P_{1t} + A_t P_{2t})} \cdot (r'_t - n) \quad (\text{A.7})$$

Equating (A.5) and (A.7) we get,

$$-\frac{(\delta_1 + \delta_2) \dot{c}_t^{NGM}}{(c_t^{NGM})^2 (P_{1t} + A_t P_{2t})} - \frac{(\delta_1 + \delta_2) P_{2t} \dot{A}_t}{c_t^{NGM} (P_{1t} + A_t P_{2t})^2} = \frac{\delta_1 + \delta_2}{c_t^{NGM} (P_{1t} + A_t P_{2t})} \cdot \rho - \frac{\delta_1 + \delta_2}{c_t^{NGM} (P_{1t} + A_t P_{2t})} \cdot (r'_t - n) \quad (\text{A.8})$$

where, $\frac{\dot{A}_t}{A_t} = \frac{\dot{H}}{H} = h$

From (A.3) we get,

$$\dot{\lambda}_{k_t} = -\frac{\delta_1 \cdot \dot{c}_t^M}{c_t^{M^2}} \quad (\text{A.9})$$

Since, $\frac{\partial H_c}{\partial k_t} = \lambda_{k_t} \cdot (r'_t - n) = (r'_t - n) \cdot \frac{\delta_1}{c_t^M} \quad (\text{A.10})$

From (A.4) we get,

$$\dot{\lambda}_{k_t} = -(r'_t - n) \frac{\delta_1}{c_t^M} + \rho \cdot \frac{\delta_1}{c_t^M} \quad (\text{A.11})$$

Equating (A.9) and (A.10) we get,

$$\begin{aligned} -\frac{\delta_1 \cdot \dot{c}_t^M}{c_t^{M^2}} &= -(r'_t - n) \frac{\delta_1}{c_t^M} + \rho \cdot \frac{\delta_1}{c_t^M} \\ \Rightarrow \frac{\dot{c}_t^M}{c_t^M} &= [(r'_t - n) - \rho] \end{aligned} \quad (\text{A.12})$$

$$\begin{aligned} \frac{\dot{c}_t^{GM}}{c_t^{GM}} &= \frac{\dot{A}_t}{A_t} + \frac{\dot{c}_t^{NGM}}{c_t^{NGM}} \\ \Rightarrow \frac{\dot{c}_t^{GM}}{c_t^{GM}} &= \frac{\dot{A}_t}{A_t} + [(r'_t - n) - \rho] - \frac{h \cdot A_t}{P_{1t} / P_{2t} + A_t} \end{aligned} \quad (\text{A.13})$$

Now, we define $c_t = c_t^M + P_{1t} c_t^{NGM} + P_{2t} c_t^{GM}$

Differentiating we get,

$$\begin{aligned} \dot{c}_t &= \dot{c}_t^M + P_{1t} \dot{c}_t^{NGM} + P_{2t} \dot{c}_t^{GM} \\ \Rightarrow \dot{c}_t &= (r'_t - n - \rho) c_t^M + P_{1t} \left[(r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right] c_t^{NGM} + \\ &+ P_{2t} \left[\frac{\dot{A}_t}{A_t} + (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right] c_t^{GM} \end{aligned}$$

$$\begin{aligned}
\Rightarrow \dot{c}_t &= (r'_t - n - \rho)(c_t - P_{1t}c_t^{NGM} - P_{2t}c_t^{GM}) + \\
P_{1t} &\left[(r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right] (c_t - c_t^M - P_{2t}c_t^{GM}) \\
&+ P_{2t} \left[\frac{\dot{A}_t}{A_t} + (r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right] (c_t - c_t^M - P_{1t}c_t^{NGM})
\end{aligned} \tag{A.14}$$

Derivation of the condition for dynamic stability:

We need trace of Jacobian matrix to be negative where the matrix is,

$$J = \begin{bmatrix} (r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right\} & 0 \\ -1 & r'_t - n \end{bmatrix}$$

Now, Trace of

$$\begin{aligned}
|J| &= [(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right\} + \\
&P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} \right\}] (r'_t - n)
\end{aligned} \tag{A.15}$$

After algebraic manipulation of (A.15) we get, trace of J matrix will be negative if,

$$(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) - \frac{P_{2t}\dot{A}_t}{P_{1t} + P_{2t}A_t} [P_{1t} + P_{2t}] + P_{2t} \frac{\dot{A}_t}{A_t} + (r'_t - n) < 0$$

$$\begin{aligned}
&\Rightarrow (r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} \frac{\dot{A}_t}{A_t} + (r'_t - n) < \\
&\frac{P_{2t} \cdot \dot{A}_t}{P_{1t} + P_{2t} A_t} [P_{1t} + P_{2t}] \\
&\Rightarrow (r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} \cdot h + (r'_t - n) < \\
&\frac{P_{2t} \cdot A_t \cdot h}{P_{1t} + P_{2t} A_t} [P_{1t} + P_{2t}]
\end{aligned}$$

After some more algebraic manipulation we get,

$$\frac{P_{1t}}{P_{2t}} \left[\frac{(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} h + (r'_t - n)}{P_{1t} h - (r'_t - n - \rho)(1 + P_{1t} + P_{2t}) - (r'_t - n)} \right] < A_t$$

Now, determinant of the Jacobian matrix is given by,

$$|J| = [(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} A_t}{P_{1t} + P_{2t} A_t} \right\}] (r'_t - n)$$

For $|J| > 0$, either of the following two cases are feasible.

Case 1: Both $(r'_t - n) < 0$ and

$$\begin{aligned}
&(r'_t - n - \rho) + P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \dot{A}_t}{P_{1t} + P_{2t} A_t} \right\} + P_{2t} \left\{ (r'_t - n - \rho) + \frac{\dot{A}_t}{A_t} - \frac{P_{2t} A_t}{P_{1t} + P_{2t} A_t} \right\} < 0 \\
&\Rightarrow (r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} \cdot h < \frac{P_{2t} \cdot \dot{A}_t}{P_{1t} + P_{2t} A_t} [P_{1t} + P_{2t}] \\
&\Rightarrow \frac{P_{1t} + P_{2t} \cdot A_t}{P_{2t} \cdot h \cdot A_t} < \frac{P_{1t} + P_{2t}}{(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t} \cdot h}
\end{aligned}$$

After some simplifications we get,

$$\frac{P_{1t}}{P_{2t}} \left[\frac{(r'_t - n - \rho)(1 + P_{1t} + P_{2t}) + P_{2t}h}{P_{1t}h - (r'_t - n - \rho)(1 + P_{1t} + P_{2t})} \right] < A_t$$

II. COMPARISON OF TWO ECONOMIES

$$\frac{\dot{c}_t}{c_t} - \frac{(\dot{c}_t)_1}{(c_t)_1} > 0$$

Using the set of equations from (15) to (20) we get,

$$\begin{aligned} & \left[\frac{\dot{c}_t^M}{c_t} - \frac{(\dot{c}_t^M)_1}{(c_t)_1} \right] + \left[P_{1t} \cdot \frac{\dot{c}_t^{NGM}}{c_t} - \tilde{P}_{1t} \cdot \frac{(\dot{c}_t^{NGM})_1}{(c_t)_1} \right] + P_{2t} \frac{\dot{c}_t^{GM}}{c_t} > 0 \\ \Rightarrow & (r'_t - n - \rho) \left[\frac{c_t^M}{c_t} - \frac{(c_t^M)_1}{(c_t)_1} \right] + \\ & \left[P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \cdot \dot{A}_t}{P_{1t} + P_{2t} \cdot A_t} \right\} \cdot \frac{c_t^{NGM}}{c_t} - \tilde{P}_{1t} (r'_t - n - \rho) \cdot \frac{(c_t^{NGM})_1}{(c_t)_1} \right] + P_{2t} \cdot \frac{\dot{c}_t^{GM}}{c_t^{GM}} \cdot \frac{c_t^{GM}}{c_t} > 0 \\ \Rightarrow & (r'_t - n - \rho) [\gamma_M - \gamma_{M_1}] + \left[P_{1t} \left\{ (r'_t - n - \rho) - \frac{P_{2t} \cdot A_t \cdot h}{P_{1t} + P_{2t} \cdot A_t} \right\} \cdot \gamma_{NGM} - \tilde{P}_{1t} (r'_t - n - \rho) \gamma_{NGM_1} \right] \\ & + P_{2t} \left[h + (r'_t - n - \rho) - \frac{P_{2t} \cdot h \cdot A_t}{P_{1t} + P_{2t} \cdot A_t} \right] \cdot \gamma_{GM} > 0 \end{aligned}$$

After certain algebraic manipulation we get,

$$\frac{P_{1t}}{P_{2t}} \left[\frac{[(r'_t - n - \rho)(\gamma_M - \gamma_{M_1}) + (P_{1t} \gamma_{NGM} - \tilde{P}_{1t} \gamma_{NGM_1}) + P_{2t} \gamma_{GM}] + P_{2t} h \gamma_{GM}}{P_{1t} h \gamma_{NGM} - (r'_t - n - \rho)(\gamma_M - \gamma_{M_1}) + (P_{1t} \gamma_{NGM} - \tilde{P}_{1t} \gamma_{NGM_1}) + P_{2t} \gamma_{GM}} \right] > A_t$$

where,

$$\gamma_M = \frac{c_t^M}{c_t}, \gamma_{M_1} = \frac{(c_t^M)_1}{(c_t)_1}, \gamma_{NGM} = \frac{c_t^{NGM}}{c_t}, \gamma_{NGM_1} = \frac{(c_t^{NGM})_1}{(c_t)_1}$$

and $\gamma_{GM} = \frac{c_t^{GM}}{c_t}$

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