

May 24, 2011

Philipp Kircher, Editor
Review of Economic Studies

Dear Philipp,

Kjetil Storesletten handled my “Theoretical Foundations” paper when it was originally submitted to ReStud; he accepted it subject to revisions, but in the course of making those revisions I realized that the results of the paper could be made substantially more general, more accessible, and more powerful. Those revisions took longer than intended (I was busy, among other things, working in the Obama administration for a year), but the result is a paper that is substantially stronger than the one that Kjetil accepted. However, Kjetil tells me that when he handed his duties over to you, there was an agreement that any papers that had not met the deadline for revision would be treated as new submissions, so that is how I am treating this paper. (I believe I have fully addressed the suggestions of the referees as well as Kjetil’s suggestions, but as it is not a resubmission I am not including a formal reply to those suggestions).

I would urge you to reconsider a decision that Kjetil made at the time he accepted my paper; Adam Szeidl had submitted a paper that fits hand-in-glove with mine and is quite short, proving the existence of an invariant distribution in a model of precisely the kind I articulate. (In fact, Adam’s paper was written when he read an earlier draft of my paper that speculated such a proof was possible but provided only simulation evidence that it was true). The two papers are so closely connected thematically that I would urge you to reconsider Kjetil’s rejection of Szeidl’s paper; if you were to do so, I could cut a bit of the discussion in the last section of my paper (presenting

simulation results) and refer more to Szeidl's paper there.

Sincerely,

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