

1.) Problem Set 4

Advanced Macroeconomics
(PhD)

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1.) As it can be seen in the plot, the economy under-responds to the shock relative to its natural response (see output for this in the figure "Exercise 1.1...").

A jump in technology makes the economy believe that it will lower again, so they will start to save and the natural rate of interest will raise. Due to this, the output under-responds.

2.) The signal, that the technology level will raise in the next period, makes the economy to borrow. To prevent this, the natural rate of interest will raise.

But the rate of interest will not raise high enough, so that ~~the~~ the output also raises and the output gap tends to zero. ~~the~~ However, the inflation rate falls due to expectations about future prices.