Homework 2 Question 2

Jiani Gao
jgao30@binghamton.edu

Department of Economics,Binghamton University

September 18, 2017

Problem

At the beginning, I set the number of k grid equals to 1000, and epislon equals to 10^{-6},but it seems like the program will take a very long time. Then I adjusted the two numbers and get a result, though not very accurate.

Steps

1 Deciede on a grid,$\mathscr{K}$, the minimun value I set is 0.2, and the maximun value for k I set is 5. Also there are 20 numbers in k grid $\mathscr{K}$.

2 Technology shocks are A_h and A_l, together with transition matrix $\prod = \pi_{ij}$.

3 For each $k_i \in \mathscr{K}$ and ℓ equals l and h, compute the value funcitons.

4 Use a loop, which stops when absolute value between V_{i+1} and V_i is less than ϵ.