

Alan Adelman

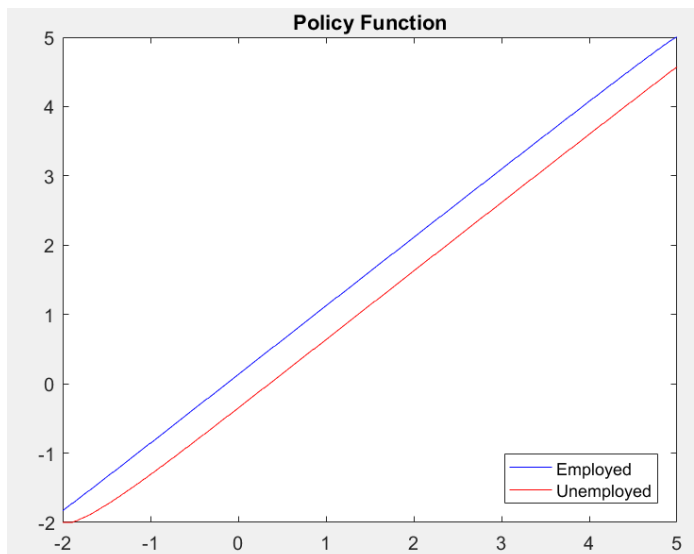
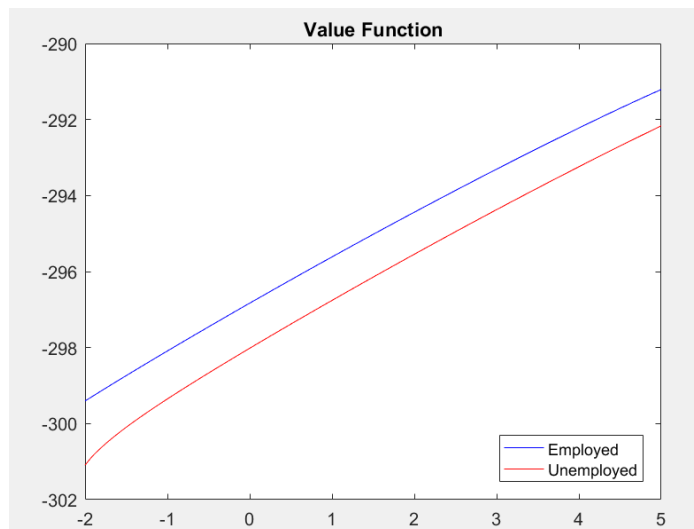
Advanced Macro 2

HW#3

Huggett Model

- 1) $V(s, a) = \max_{a' \in \Gamma(s, a)} U(y(s) + a - qa') + \beta E_{s'|s}[V(s', a')]$
- a. The control variable is asset holding for tomorrow. The state variables are the employment state today and current asset holding.
 - b. Utility is CRRA.
 - c. The transition matrix is $\begin{bmatrix} \pi_{ee} & \pi_{eu} \\ \pi_{ue} & \pi_{uu} \end{bmatrix}$, where e is employed and u is unemployed
 - d. $y(e) = 1$ and $y(u) = b$

2) Value and Policy Functions



- 3) Lorenz Curve and Gini Coefficient (I know these are off, I haven't had much time to wrestle with problems. Once you upload the solution, I will correct everything).

