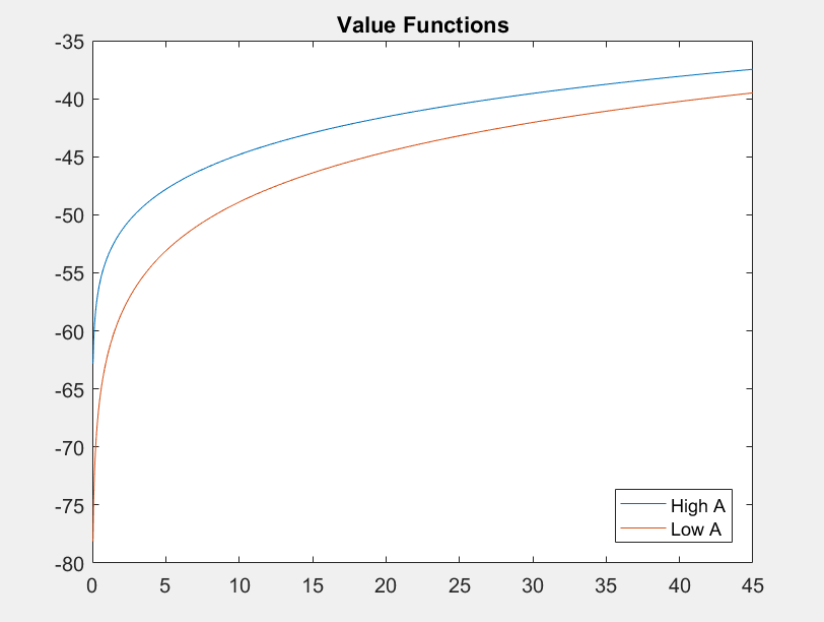
Alan Adelman

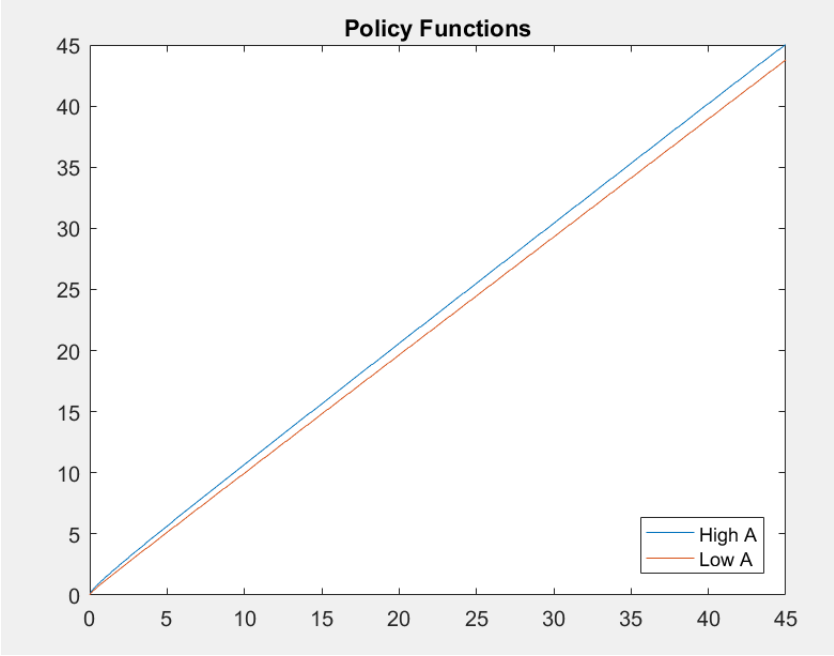
Advanced Macro 2

HW#2

1) $V(k,A) = \max_{k' \in \Gamma(k,A)} U(Ak^{\alpha} + (1-\delta)k - k') + \beta E[V(k',A')]$
   a. The control variable is capital for tomorrow. The state variables are capital today and technology today.
   b. Utility is CRRA.
2) It is increasing in K and concave.



3) Savings increase in K and higher for larger values of A.



4) Plot of simulated quarterly output, using stochastic technology and calibrated to have a standard deviation of 1.8%.