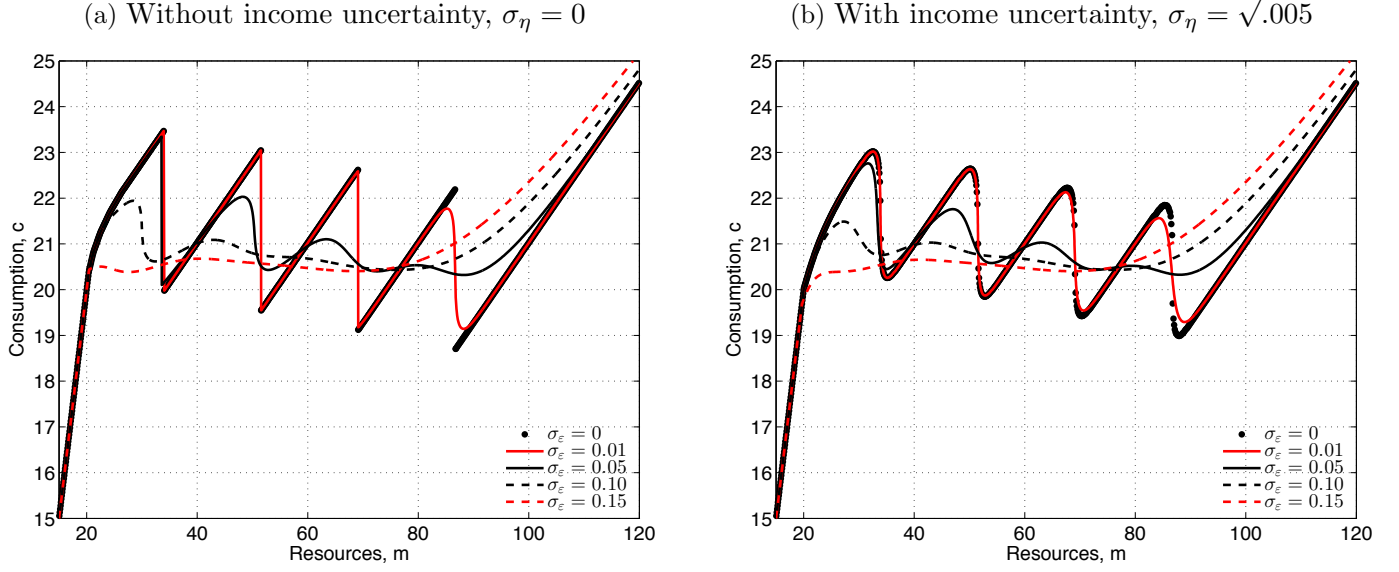
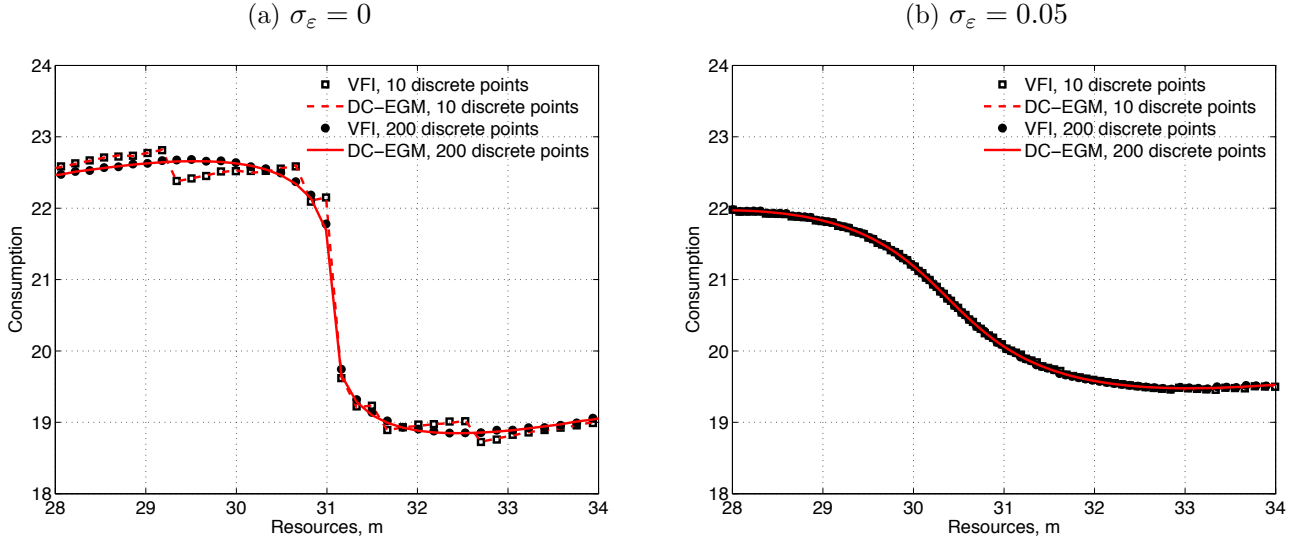


Figure 2: Optimal Consumption Rules for Agent Working Today ($d_{t-1} = 1$).



Notes: The plots show optimal consumption rules of the worker who decides to continue working in the consumption-savings model with retirement in period $t = T - 5$ for a set of taste shock scales σ_ϵ in the absence of income uncertainty, $\sigma_\eta = 0$, (left panel) and in presence of income uncertainty, $\sigma_\eta = \sqrt{.005}$, (right panel). The rest of the model parameters are $R = 1$, $\beta = 0.98$, $y = 20$.

Figure 3: Artificial Discontinuities in Consumption Functions, $\sigma_\eta^2 = 0.01$, $t = T - 3$.



Notes: Figure 3 illustrates how the number of discrete points used to approximate expectations regarding future income affects the consumption functions from value function iteration (VFI) and the DC-EGM. Panel (a) illustrates how using few (10) discrete equiprobable points to approximate expectations produce severe approximation error when there is *no* taste shocks. Panel (b) illustrates how moderate smoothing ($\sigma_\epsilon = .05$) significantly reduces this approximation error.