

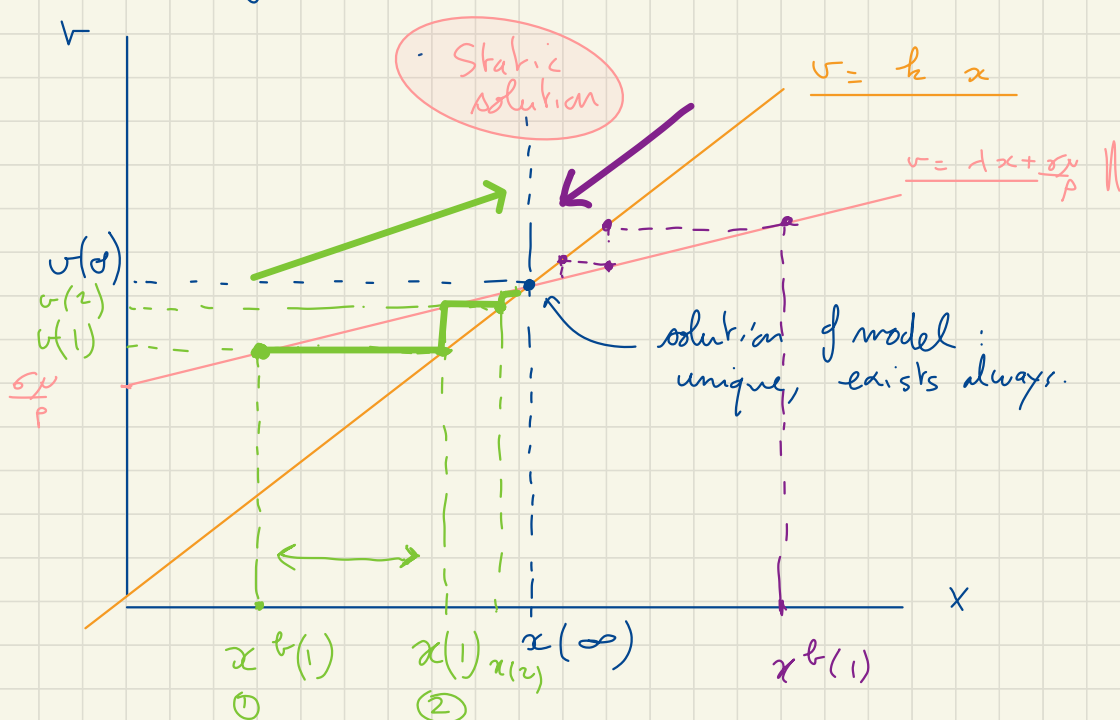
Convergence to the Model Solution

Pascal Michailat

<https://www.pascalmichailat.org/t5.html>



Solution of model with $\rho = 0$ & $\gamma = 1$



Discrete time

- At time $t=1$, households expect $x^e(1)$
- Households max. utility given $x^e(1)$
 - $\hookrightarrow v(1) = \lambda x^e(1) + \frac{\sigma \nu}{\rho}$
 - $\hookrightarrow x(1) = \frac{v(1)}{\lambda} = \left[\lambda x^e(1) + \frac{\sigma \nu}{\rho} \right] \frac{1}{\lambda}$
- At time 2, households expect $x^e(2) = x(1)$

- Households max utility given $x^t(z) = x(1)$

until $t \rightarrow \infty$