

Structure of the Dynamic Model

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



Households:

- representative household
- real wealth into utility function \rightarrow government bonds into the utility function (all wealth held as bonds)
- households save w/ bonds
- linear production functions.

$$\text{capacity} = a \times h$$

\nearrow # service that can be produced at any point in time

\nwarrow labor productivity (technology)

\nwarrow # workers in household = labor force

nominal

Government:

- issues V bonds, held by households
 - set taxes (lump-sum) to finance interest payments
 - central bank sets nominal interest rate
- \rightarrow governs interest payment on bonds.

Timing: continuous time $t \geq 0$