**Judd’s Parameterized Expectations Algorithm**

1. Generate a series of stochastic exogenous state variables, using an exogenous law of motion:
2. Assume a set of initial values for the endogenous state variables, .
3. Guess at the functional form of the state transition function, .
4. Using the non-linear behavioral functions, and , generate a series of endogenous state variable data, :

1. Update the state transition function by regression or equivalent fitting of the data.
2. If the new transition function is not appreciably different from the old one, finish. Otherwise update a new guess as the convex combination of the two functions and return to step 4.