Model Outline

Jenna Christensen and Kai Jensen

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*Lucas Model*

The firm’s output with decreasing returns to scale:

The aggregate total factor of productivity is found with a Markov chain rule following:

The probability of moving from state to a particular state in is:

The firm’s problem: where represents the dividends.

The household is defined by:

subject to

We define the utility function as:

Lucas Model During a Lifecycle\*

The Value Function:

subject to

The Value Function During the Last Age: (we will start with this and then work backwards)

subject to

*General Equilibrium* is defined as a pair of functions: the price function and the value function. All output must be consumed, all asset shares must be held, and all asset prices solve the dynamic problem.

The value function is solves so that:

Prices satisfy the folloiwng:

The decision rule satisfies the following:

Key Variables:

: Labor share of output

: Risk aversion parameter

: Discounting factor

: persistence of aggregate shock

: variance of the iid part of the shock

We will gather price data for T-Bills from the U.S. Treasury’s website. Historical price data for Bitcoin can easily be gathered from Yahoo Finance and similar sites. We will compute daily returns as . Thereafter, we will compute the equity premium as .