Title

Marco Brianti
Vito Cormun

March 2019

Boston College

Equations

$$1 = \beta E\left[\left(\frac{\{Z_t K_t^{\alpha} - \eta_1 K_{t-1} - \eta_2 R_t + [1 - \gamma_2 Z_{t-1} K_{t-1}^{\alpha}]R_{t-1}(\eta_1 K_{t-2} + \eta_2 R_{t-1})\}}{\{Z_{t+1} K_{t+1}^{\alpha} - \eta_1 K_t - \eta_2 R_{t+1} + [1 - \gamma_2 Z_t K_t^{\alpha}]R_t(\eta_1 K_{t-1} + \eta_2 R_t)\}}\right)^{\sigma}\right][1 + \gamma_2 Z_t K_t^{\alpha}]R_t$$

$$K_t = (1-\delta)K_{t-1} + [1 - \gamma_2(Z_t K_t^{\alpha})](\eta_1 K_{t-1} + \eta_2 R_t)$$

$$Z_t = (1-\varepsilon_t)Z_{t-1} + \varepsilon_t \lambda R_t$$

$$\varepsilon_t = \frac{(1-\rho_t)I_t}{K_t}$$

Equations

$$1 = \beta[1 + \gamma_2 Z_{ss} K_{ss}^{\alpha}] R_{ss}$$

$$K_{ss} = (1 - \delta) K_{ss} + [1 - \gamma_2 (Z_{ss} K_{ss}^{\alpha})](\eta_1 K_{ss} + \eta_2 R_{ss})$$

$$Z_{ss} = \lambda R_{ss}$$

$$\varepsilon_{ss} = \frac{(1 - \rho_{ss}) I_{ss}}{K_{ss}}$$

Equations

$$1 = \beta[1 + \gamma_2 \lambda R_{ss} K_{ss}^{\alpha}]R_{ss} \quad \Rightarrow \quad K_{ss} = \left(\frac{1 - \beta R_{ss}}{\gamma_2 \lambda R_{ss}^2} \right)^{\frac{1}{\alpha}}$$

$$\begin{aligned} K_{ss} &= (1-\delta)K_{ss} + [1 - \gamma_2(\lambda R_{ss} K_{ss}^{\alpha})](\eta_1 K_{ss} + \eta_2 R_{ss}) \\ &\Rightarrow \\ \left(\frac{1 - \beta R_{ss}}{\gamma_2 \lambda R_{ss}^2} \right)^{\frac{1}{\alpha}} &= (1-\delta)\left(\frac{1 - \beta R_{ss}}{\gamma_2 \lambda R_{ss}^2} \right)^{\frac{1}{\alpha}} + \left[1 - \gamma_2 \left(\lambda R_{ss} \frac{1 - \beta R_{ss}}{\gamma_2 \lambda R_{ss}^2} \right) \right] \left[\eta_1 \left(\frac{1 - \beta R_{ss}}{\gamma_2 \lambda R_{ss}^2} \right)^{\frac{1}{\alpha}} + \eta_2 R_{ss} \right] \end{aligned}$$

$$Z_{ss} = \lambda R_{ss}$$

$$\varepsilon_{ss} = \frac{(1 - \rho_{ss}) I_{ss}}{K_{ss}}$$

Empirical Strategy

Empirical Results

Robustness Checks

Test

Takeaway

Model

Conclusions