Assignment – 4

Question (ix)
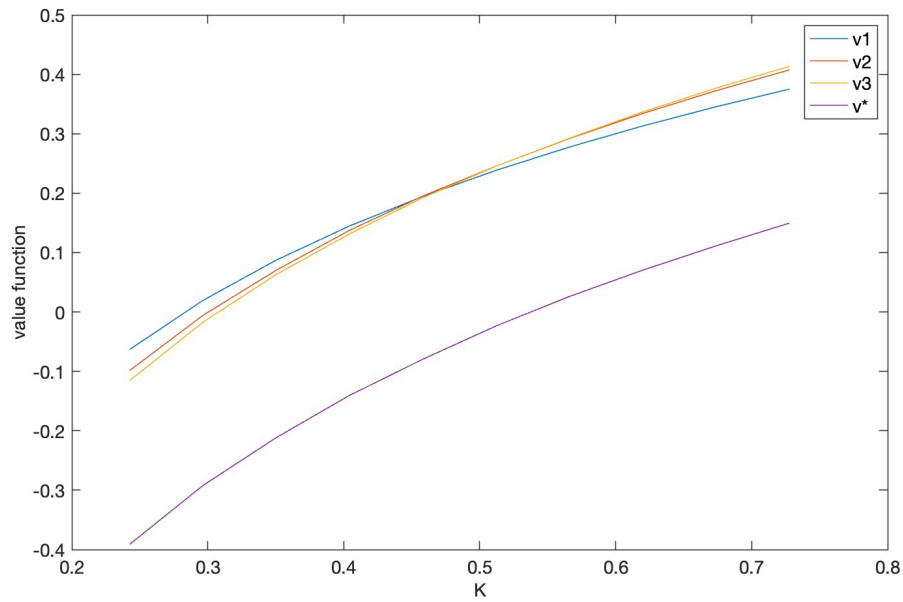
Question (xi)
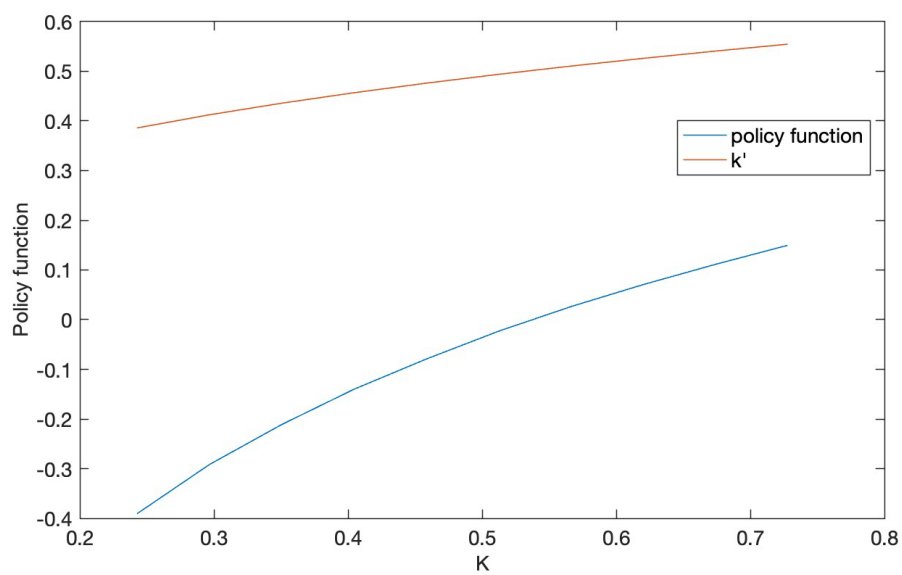
Question (xii)

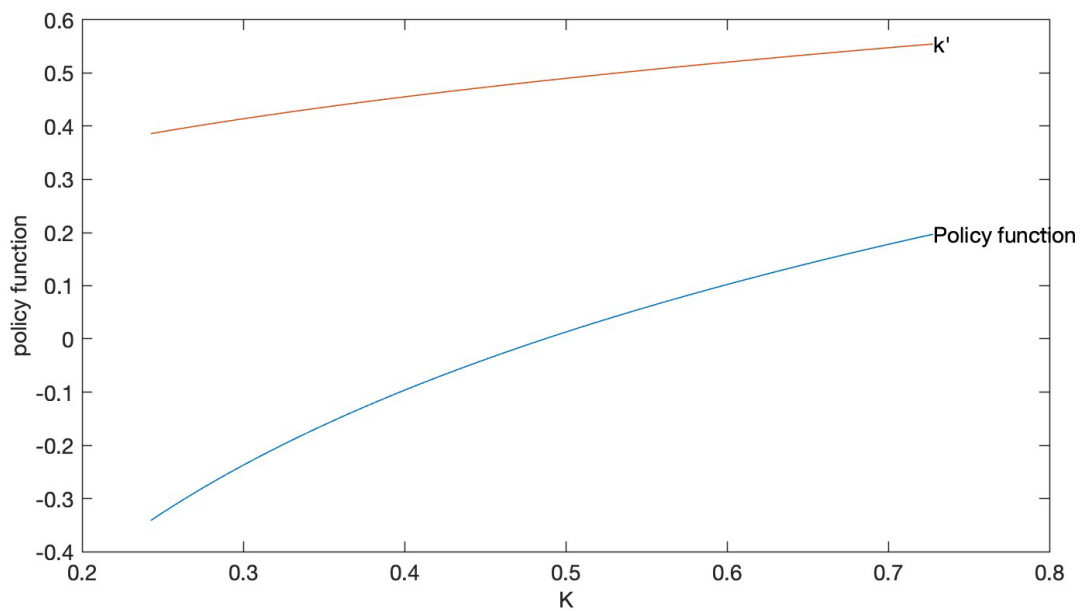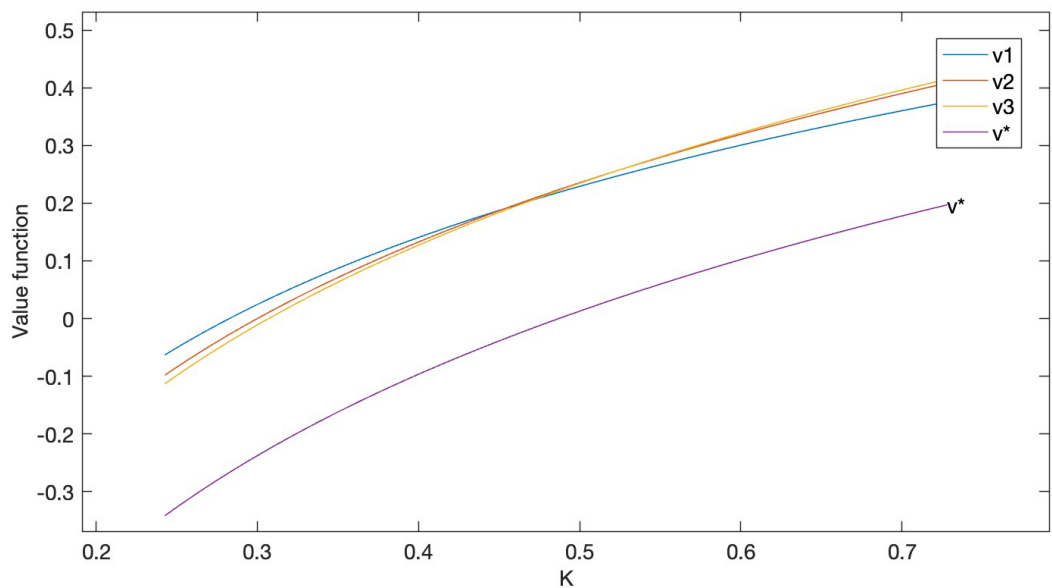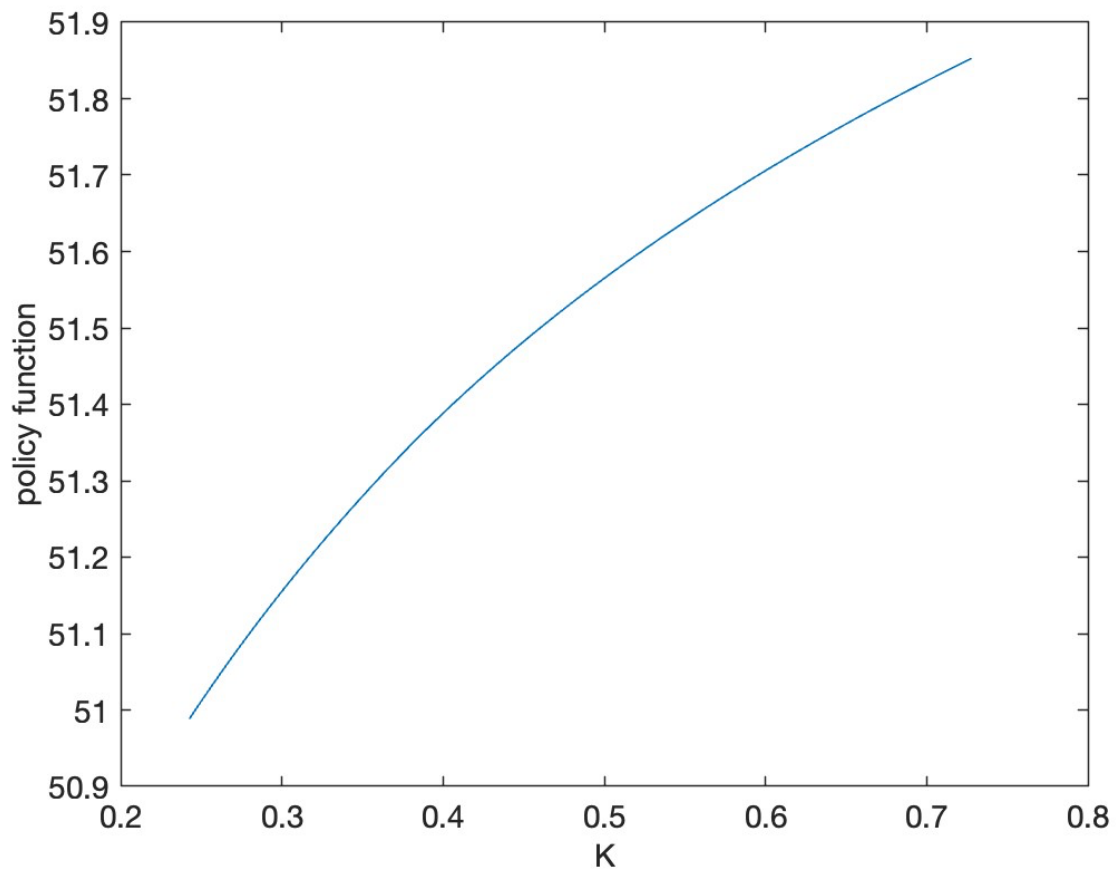It seems that both the graphs (ix) and (xi) remain the same even when N=100. The policy function does seem to have converged to the true one here.

Question (xiii)

Here, for values of delta=0.025, and sigma= 2 the policy function seems to converge to a much higher value between 51.8 and 51.9. This is possibly because the depreciation rate is very small here and the elasticity of substitution over time is represented by 1/sigma, since here sigma is greater than 2 and the elasticity is smaller here.

Question (xiv)
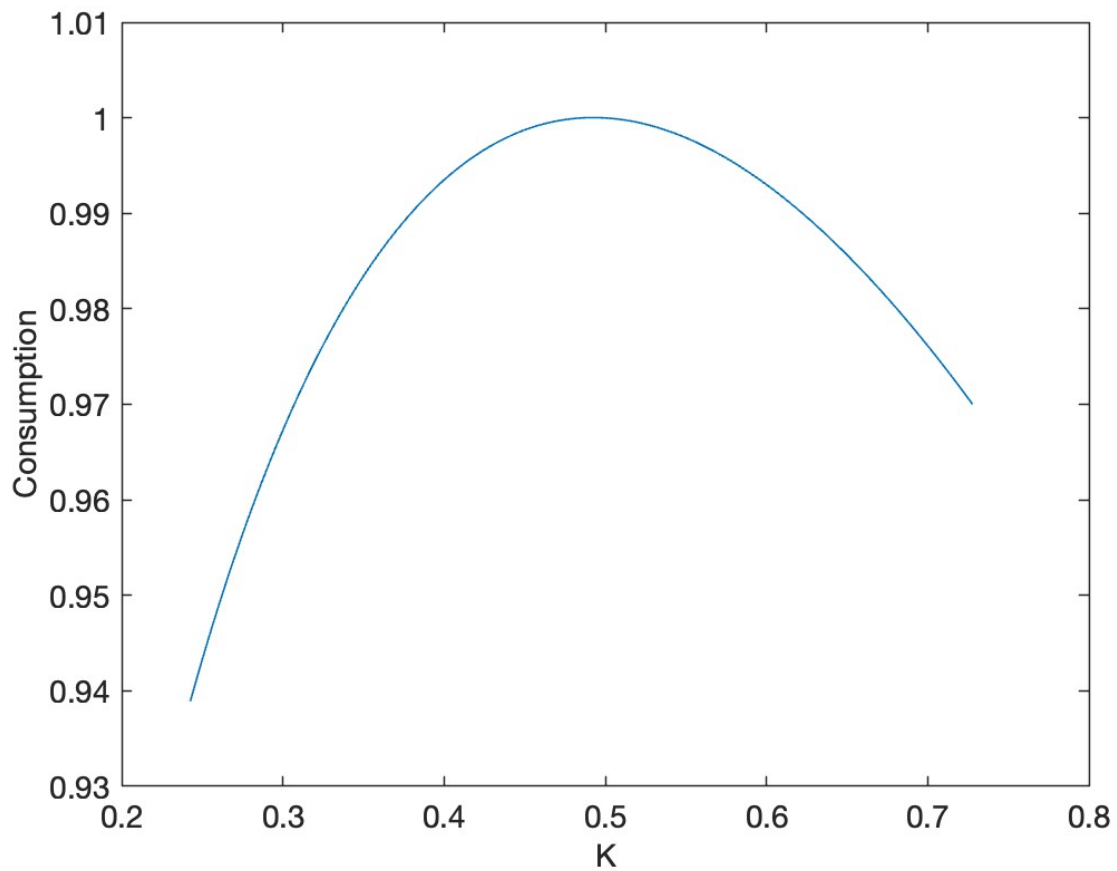
As expected Consumption level converges to its highest point at the steady state level of k* on the grid K. The policy function, as can be interpreted from (xii) is indeed increasing and concave.