Problem Set #8

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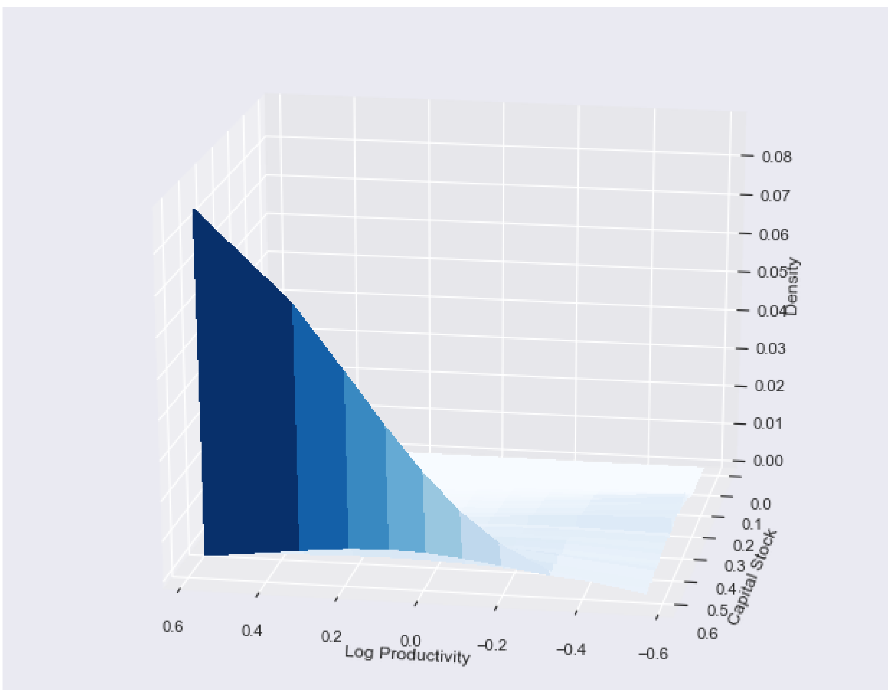
1 General Equilibrium Results

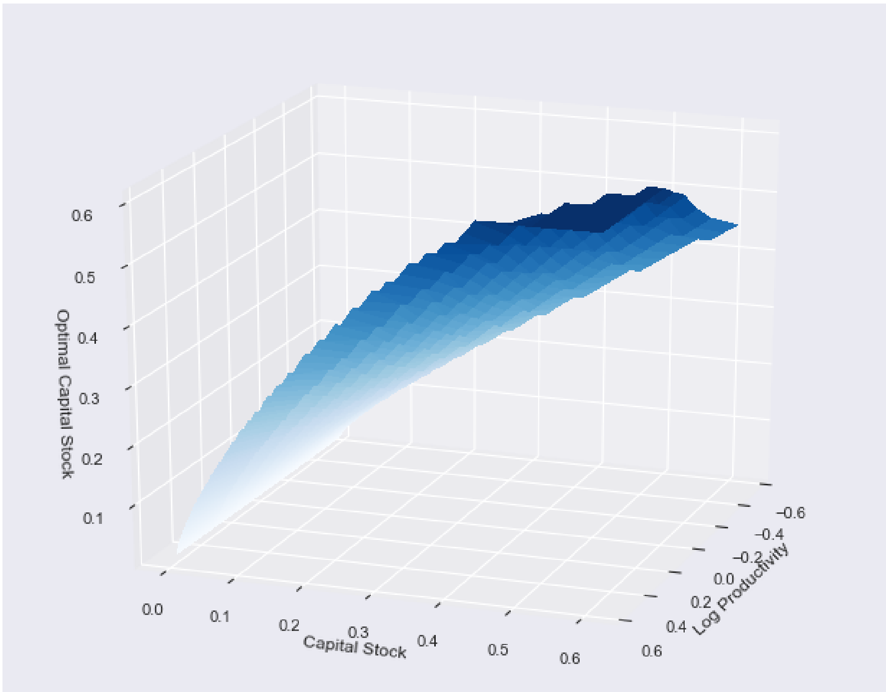
The equilibrium wage rate obtainted from the model was 0.90072986.

2 Stationary Distribution



The policy function, plotted below, allows us to solve for the stationary distribution of firms. This distribution will allow us to solve for the aggregate economy wide variables, including labor, investment, output, and adjustment costs. From this plot we observe that higher productivity shocks are associated wiht higher levels of capital stock. These higher levels of capital and productivity shocks are also associated with a higher number of firms in the market.

3 Policy Function



The policy function along with the value function can help us determine the solution to the firm's problem. From the graph we see that the higher the productivity shock, z, the higher the capital and optimal capital stock. This relationship, between capital stock and productivity is positive and increasing.