

Theoretical Foundations of Buffer Stock Saving

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Drawbacks of Numerical Solutions

A Black Box

- Can Construct Solution to Model Without Really Understanding It
- Hard Even To Be Sure Your Numerical Solution Is *Right*
- Little Intuition for How Results Might Change With
 - Calibration
 - Structure
- *Very Hard To Teach!*

I Am A *Big* Fan Of Numerical Methods

- Have Done A Good Deal Of Work With Them Myself
- But As A Result, Have Felt All These Drawbacks Keenly

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Foundations For Microeconomic Household's Problem With

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- CRRA Utility
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- Problem Defines A Contraction Mapping
 - $\Rightarrow \exists$ A Unique Consumption Function $c(m)$
- There Is A 'Target' Ratio Of Assets To Permanent Income
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 - Good News
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