

Notes on implementation

Karol Bednarski

January 2026

1 Introduction

The model is an implementation of the theory provided in the Project Liquidity and Risk file. FOC conditions were derived and simplified. First-order approximation has been applied. The subscript of R_{t-1}^T has been changed in the following equation to solve the model using Blanchard-Khan:

$$c_t + \mathbf{1}^\top \mathbf{b}_t = y + \mathbf{R}_t^\top \mathbf{b}_t - T_t$$