The Two-Period Model

Livio Maya [†]

[†]Insper

Course Content

1. The Two-Period Model
2. Production + Marginal Taxation
3. Uncertainty and Income Insurance
4. Overlapping Generations and Pension
5. Classical Monetary-Fiscal Interactions
6. Fiscal Theory of the Price Level
7. Fiscal Multipliers
8. Brazilian Case

Grading

- 20% - Four problem sets
  - Dynamic programming
- 30% - Group project (06/17)
  - Up to 3 students / group
  - Fiscal policy issue relate to Brazil
  - Slides + Presentation (no paper)
- 50% - Exam (06/24)

The Two-Period Model

- Government

$$\begin{aligned} b_{-1} &= q_0 b_0 + \tau_0 - g_0 \\ b_0 &= \tau_1 - g_1 \\ \Longrightarrow \quad b_{-1} &= \tau_0 - g_0 + q_0 \left(\tau_1 - g_1\right) \end{aligned}$$

- Households, utility $u(c_0) + \beta u(c_1)$

$$\begin{aligned} q_0 a_0 + c_0 &= a_{-1} + y_0 - \tau_0 \\ c_1 &= a_0 + y_1 - \tau_1 \\ \Longrightarrow \quad a_{-1} &= c_0 + \tau_0 - y_0 + q_0 \left(c_1 + \tau_1 - y_1\right) \end{aligned}$$

- No borrowing: $a_0 \geq \underline{a} = -(y_1 - \tau_1)$ (*natural limit*, same as $c \geq 0$)
- Intertemporal choice: (Euler) $q_0 u'(c_0) = \beta u'(c_1)$
- Market-Clearing: $y = c + g$

Frame title

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