

ApndxCGrowthDeclines When Is Consumption Growth Declining in m ?

Figure 4‘Stable’ (Target; Balanced Growth)

Henceforth indicating appropriate arguments by the corresponding subscript (e.g. $'_{t+1} \equiv '(_{t+1})$), since $_{t+1}t_{+1} =$, the por

Now differentiate the Euler equation with respect to $_t$:

but since $\Upsilon_{t+1} > 0$ we can see from eq:covgen that eq:kappaPrimeLT0 is equivalent to

which, using eq:cPrimek, will be true if

which in turn will be true if both

and $\text{cov}_t(\Upsilon_{t+1}^{-1}, \Upsilon_{t+1}) < 0$.

The latter proposition is obviously true under our assumption > 1 . The former will be true if $\text{cov}_t \left((_{t+1}(_{t+1}))^{-1}, '(_{t+1}) \right)$

The two shocks cause two kinds of variation in $_{t+1}$. Variations due to $_{t+1}$ satisfy the proposition, since a higher draw o