Equality of  and p Growth with Transitory Shocks
Section 4.1Individual Balanced Growth of Income, Consumption, and Wealthsubsection.4.1 asserted that in the absenc
First define () as the function that yields optimal end-of-period assets as a function of .
Suppose the population starts in period $t$ with an arbitrary value for $\mathrm{cov}_t(a_{t+1,i}, {}_{t+1,i})$. Then if ˆ is the invariant mean l

where the combination of the bar and the ´ are meant to signify that this is the average value of the derivative over the inter

so

But since $^{-1}()^{1/} < '() <$,

and for the version of the model with no permanent shocks the GICModGIC-Mod says that $<$, while the FHWCFHWC sa

This means that from any arbitrary starting value, the relative size of the covariance term shrinks to zero over time (co
This logic unfortunately does not go through when there are permanent shocks, because the ${}_{t+1,i}$ terms are not indepe
To see the problem clearly, define ˘ $= [{}_{t+1,i}]$ and consider a first order Taylor expansion of $'({}_{t+1,i})$ around ˆ${}_{t+1,i} =$ ˘$a_{t,i} + 1$