## LINEAR MODEL EQUILIBRIUM



$$E(\epsilon) = 0$$

ignore random variation

Fig. 
$$\gamma_{+} - \beta \gamma_{+} = \alpha$$

$$\gamma_{+} (1 - \beta) = \lambda$$

$$\gamma_{+} = \frac{\lambda}{1 - \beta}$$

MECROECONOMEC SOLUTION (SOLON 2004)

"PLUG AND PLAY"

Cit = (1-T) /2 - Iit

Vittle = m + P[OIn(Iit + Git) + eital NOT NEEDED S+ reit + Vit

Vital = pt + poln(Iit + Git) + peital U= (1-0) In [(1-t) /2- Iit] + xp + xp0 In(Iit+6it) + deit+1

$$\frac{(1-4)}{(1-t)\gamma_{\ell}-I_{it}} + \chi \rho \theta \frac{1}{2\pi I_{it}+G_{it}}$$

$$\frac{-(1-4)}{(1-t)\gamma_{\ell}-I_{it}} + \frac{\chi \rho \theta}{I_{it}+G_{it}} = 0$$

$$\frac{\alpha \rho \theta}{I_{i+} 6_{i+}} = \frac{1-\alpha}{(i-t)\gamma_{+} - I_{i+}}$$

$$\frac{(1-t)y_{t}-I_{it}}{I_{it}+G_{it}}=\frac{1-\lambda}{\lambda P \theta}$$

$$I_{it} + G_{it} = \frac{\alpha \rho \theta (1-t) \gamma_t}{1-\alpha} - \frac{\alpha \rho \theta}{1-\alpha} I_{it}$$

$$Iit = \frac{\alpha p \theta (i-t) \gamma_i}{1-\lambda} - \frac{\alpha p \theta Iit}{1-\lambda} - 6it.$$

It + 
$$\frac{\alpha \rho \theta I_{ik}}{1-\alpha} = \frac{\alpha \rho \theta (1-k) \gamma_k}{1-\alpha} = \frac{6it}{1-\alpha}$$

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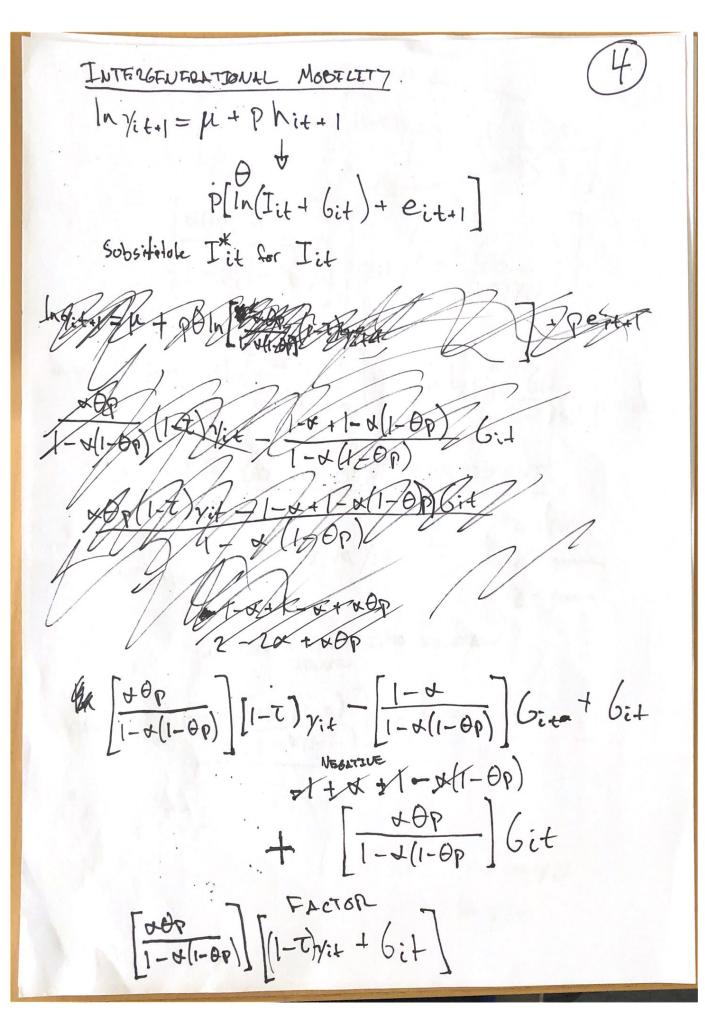
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In yith 
$$= \mu + \theta p \ln \left[\frac{\omega \theta p(1-t)}{1-\omega(1-\theta p)}\right] + \theta p \ln \left[\frac{\omega t}{(1-\tau)y_it}\right]$$

And  $= \mu + \theta p \ln \left[\frac{\omega \theta p(1-t)}{1-\omega(1-\theta p)}\right] + \theta p \ln \left[\frac{\gamma_{it}}{1+\frac{G_{it}}{(1-\tau)y_{it}}}\right] + peith$ 

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SUBSTITUTE BACK INTO EQUATION ABOVE

Oplnyit & Opllnyit Op(1-8) Inyit la Vital = u\* + [(1-8) OP] In yit + peit