HONEWOH # 4 MOURHOH A

The Ender equation waters: Ethers III,

with Ref! gross rock serum

Thus, EEE Pexp(-Jact+. + St+1)]=1

Do log- nounality:

where $V = -\frac{1}{2} Var_{\xi} [r_{\xi+1}] - \frac{1}{2} J^2 Var_{\xi} [r_{\xi+1}] + V$ where $V = -\frac{1}{2} Var_{\xi} [r_{\xi+1}] - \frac{1}{2} J^2 Var_{\xi} [r_{\xi+1}]$ Using obvious nototion and imposing constant

Uarianas

1=-log(B)+V=-log(B)-/262-12822+86

Thus, E [[+1]= Mr+dhe + b & Det

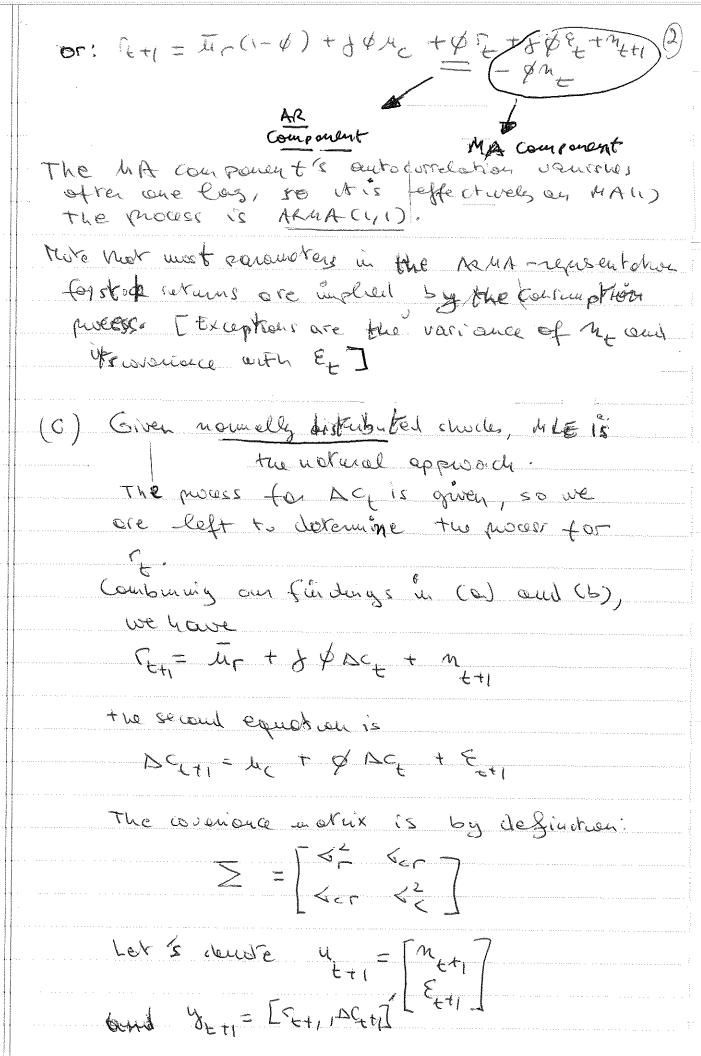
is fully haven by consumption growth.

(b) By definition, Tex= Ectron 7 then with Filmer J=0

The moose for of seconds:

Ct+1 = Ing + & & Def + Mett,

00: F+1 = Mp + 8 \$ (1-\$1) [4c+E]+464



It is rranget forward to write down tre

 $L(y_{-};\theta) = -\frac{1}{2} \log |\Sigma| - \frac{1}{2} \sum_{t=1}^{2} (u_{t+1} \sum_{t=1}^{2} u_{t+1})$ (*)

Importantly, what is Θ ?

6 = [P.dime) \$, 40, 40, 60]

Hote that here are no coulitional mean parameters for me take setum equation as may are constrained by me Lucus model.

A notural alternative model is an un contrained bisariore dynamic system ctuatis a "reder entreguession"):

> Yerr = My + Ay Ye + Wett 2x2 movaix

Q = [My', vec (Ay) , vech (E)]

The likelihood function is as in (*)

=> Libelihood roris toot \$

2 (Luc-Lous) ~ 2 (# of 19strictions)

Incontrained Constrained likelihood (d) We do have:

E [Et] = U + J E [DC++1]

Thus, ELLET, - ME JACTI]=0

We can thous write

(+1 = 2 + 9 Det+ + Aft

Wirm Et [4+1] =0

However, it is not true that

Ejuft, DCFU] =0

Thus, the ors conditions are not

Sets field and Ots will not provide

a consistent estimate ef &.

An estudos hot would note is on

IV Constrance tel veriobles) tooth

instruments that are

· uncorrelated with u

a correlated with Actt

Lossed (CIt) Volue of DC++1/E+1

would malec seuse (see e.g., Holl, 1985)