1 Heterogeneous Capital

Let \( y = (k_1 + ak_2)^{1/3} \). \( c = w \). \( k_j = z_j - \lambda k_j \) for \( j = 1, 2 \).

(a) Do the full dynamic analysis for \( a = 1 \). At each stage, comment on the economic implications.

(b) Do the same for \( a \neq 1 \).

2 Money and Growth

\( y = k^{1/3}, \ s = 1/10, \ \mu = 0, \ n = .01. \)

"Friedman Rule": for which values of \( \theta \) is the steady-state public debt positive.

Do the full dynamic analysis for each of the cases: \( b^* > 0 \), \( b^* = 0 \), and \( b^* < 0 \).

At each stage interpret the economics.