

Professor Karl Shell
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Economics 732: Monetary Economics II
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Problem Set # 2

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 θ 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.