

Problem Set

MA18Q1-L

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Comparative dynamics

Suppose that a Ramsey-type economy is on its balanced growth path. Describe, in words and with graphs, how each of the following affects the dynamics of the economy.

1. Announcement delivered at $t = 0$ of a permanent rise in g , effective immediately.
2. Announcement delivered at $t = 0$ of a permanent fall in δ , effective as of $t = 1$.
3. Announcement delivered at $t = 0$ of a temporary rise in θ , effective during $1 < t < 2$.