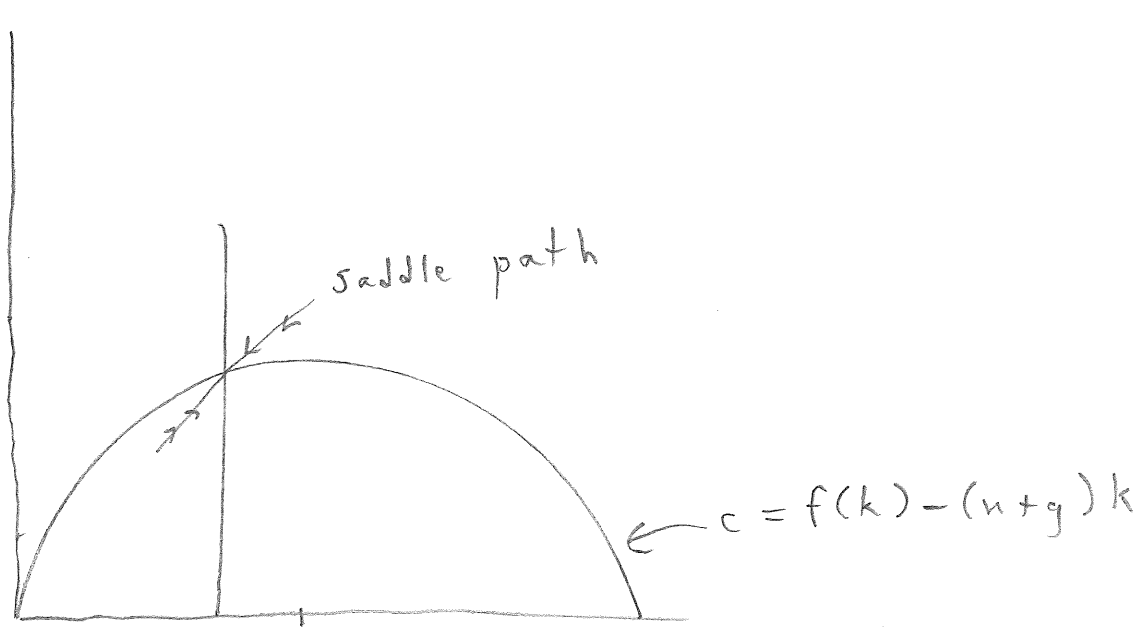


ANSWERS TO RCK PROBLEM SET

$\frac{C}{AL} \rightarrow c$



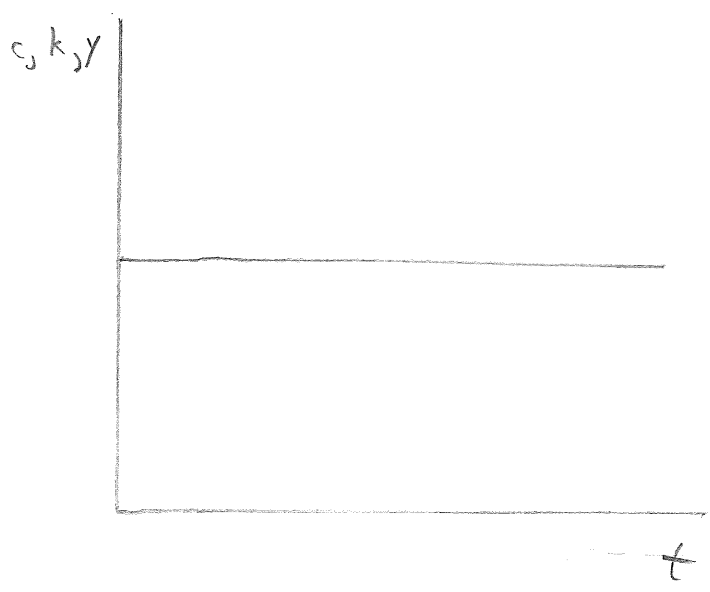
$c = f(k) - (n+g)k$

$\frac{K}{AL}$

$f'(k^*) = \rho + n + \theta g$

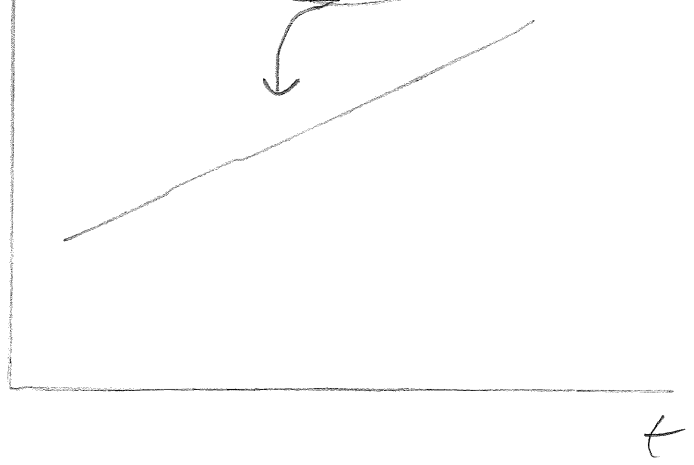
$f'(k^{GR}) = n + g$

In LKSS,



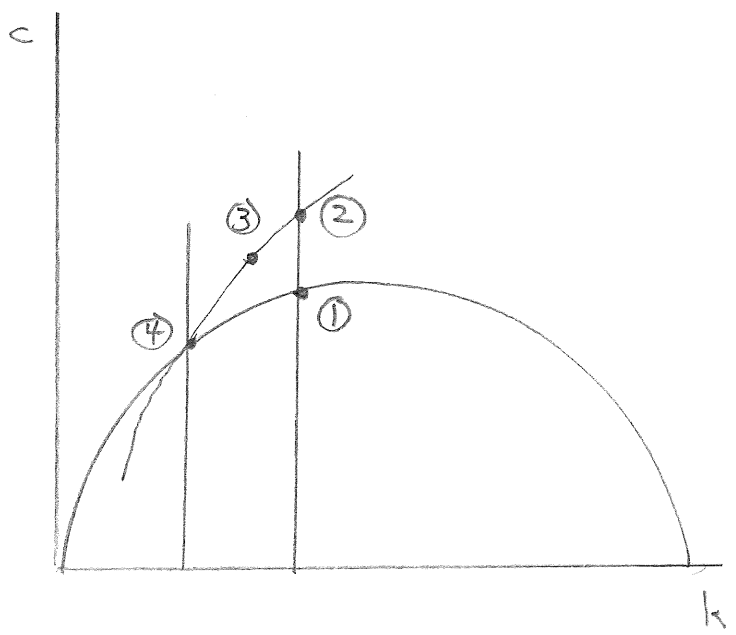
$\ln(C/L),$
 $\ln(Y/L),$
 $\ln(K/L)$

slope is g



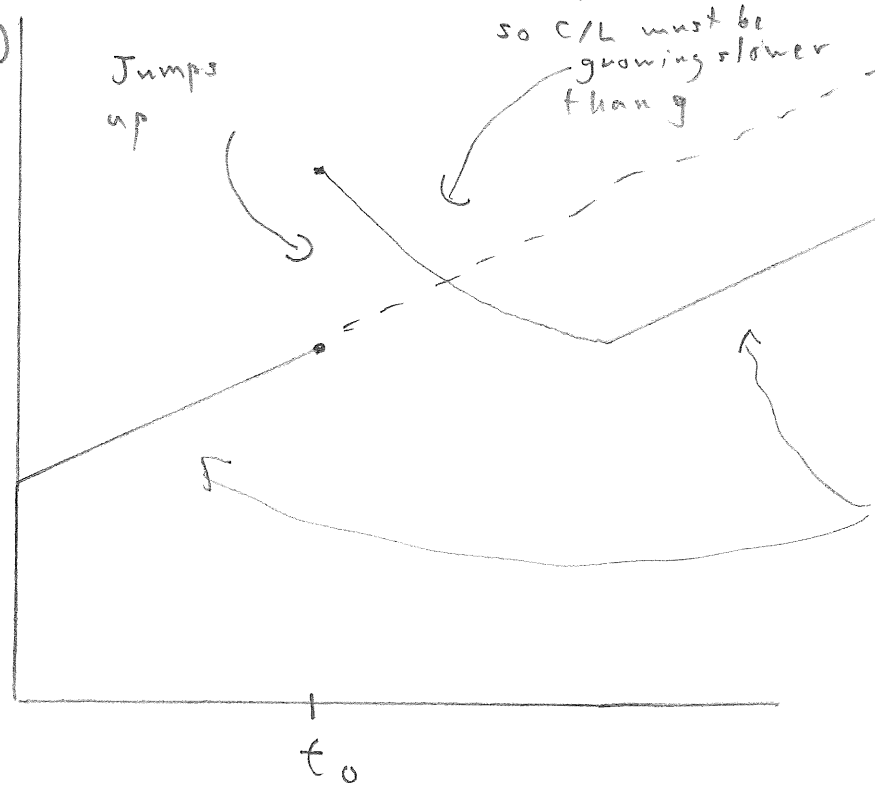
ANSWERS TO RCK PROBLEM SET (cont.)

a) Increase in c



Meanwhile, what's happening to $\frac{c}{L}$?

$\ln(c/L)$



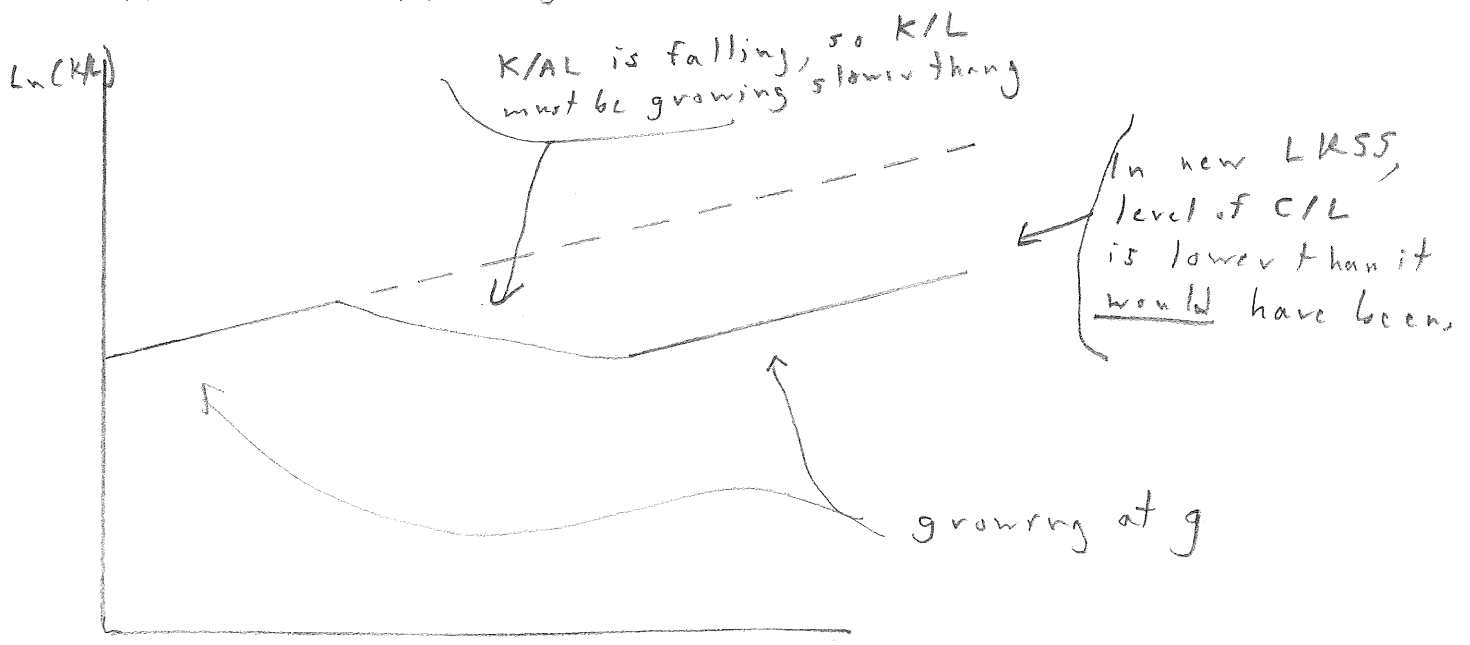
In new LKSS,
level of C/L
is lower than
it would
have
been

Growing at
rate g

ANSWERS TO RCK (cont.)

a) Increase in ρ (cont.)

What's happening to K/L ?

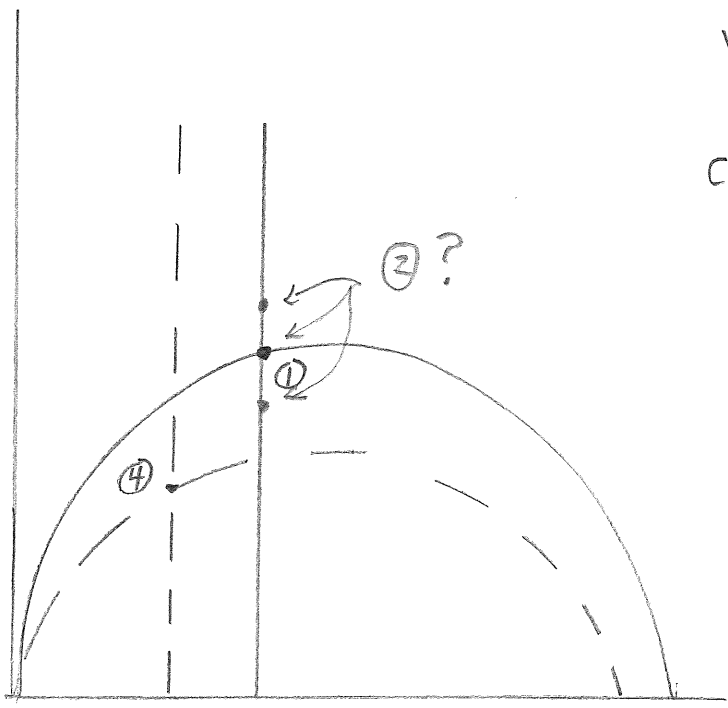


b) Increase in g

At t_0 , c jumps to new saddle path but

Where does new saddle path lie?

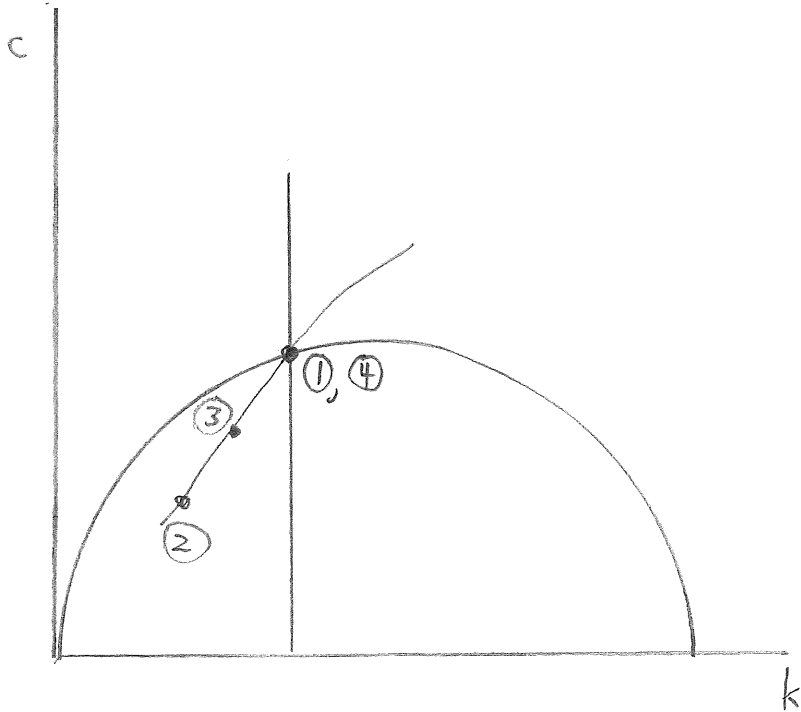
Could be above, below, or on top of ① depending on relative parameter values.



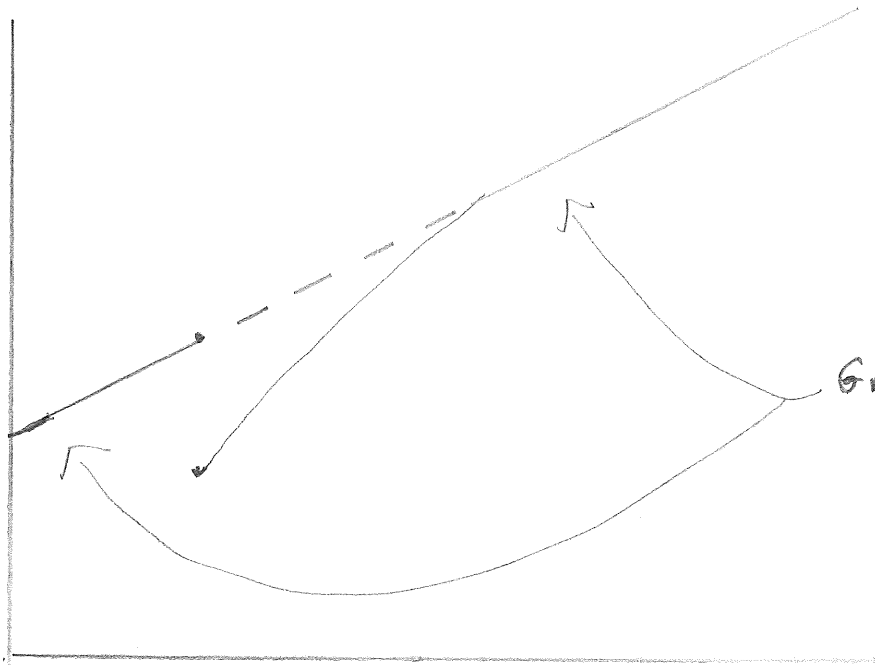
ANSWERS TO RCK PROBLEM SET (cont.)

④

c) Destruction of capital



$\ln(C/L)$
or
 $\ln(K/L)$



New LKSS
same as old
one

Growing at rate g