Homework 4 Q&A

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1 Regarding Question 1

Question: Can we assume the income stream is constant over time?
Answer: No, the income stream is given by $\{y_{t+j}\}_{j=0}^{\infty}$, which is just $\{y_t, y_{t+1}, y_{t+2}....\}$, the elements in this set is NOT necessarily same

Question: What is the path of consumption?
Answer: It's just a set $\{c_{t+j}\}_{j=0}^{\infty}$

Question: Do we solve this question at time t or time 0?
Answer: Time t, so you need to take care of the saving/borrowing decision in $t-1$ (i.e. if agent saves a_t at time $t-1$, then the agent's time t wealth would have $(1+r) a_t + y_t$

2 Regarding Question 2

Question: Does the tax starts at date t or $t+1$?
Answer: at date t

3 Regarding Question 3

Question: Is this the tax on y?
Answer: correct

4 Regarding Question 4

Question: What is two-period economy in this question?
Answer: The economy studied in the lecture note "Notes on CE in a dynamic economy"

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