Problem set 2. 14.461 Fall 2012.

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References: Ivan's notes.

1 Computing AMSS.

Solve a parameterized version of the AMSS model covered in class with concave utility numerically. Use dynamic programming with a single state variable. Parameterize preferences and uncertainty to your liking, but defend your choices.

1. For benchmark parameters, display the solution for the policy functions, value functions and a Monte Carlo simulation.

2. Starting with a debt level of 60% of GDP how much time does it take on average to reach the first best?

3. Do comparative statics with respect to parameters and report your results.

4. What is the most interesting and what is most questionable about this model?

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