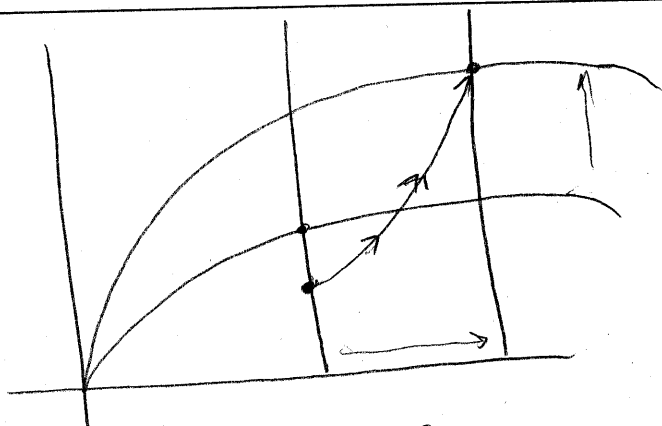


low IES



high IES
(save more initially)

- jump direction depends on IES (ambiguous)
- cf income vs. substitution effects.
- need an implausibly high IES to get a jump downwards
- income effect - more output
- substitution effect - higher return on capital
- How to get $\beta, \rho, \alpha, \delta, \theta$?
- β is going to be equal to interest rate in steady state.
- $\beta \approx 0.96$
- $\alpha \approx 0.36$
- $\delta \approx 0.06$ from BLS or $\frac{\delta K}{Y}$ = savings rate
- $\theta \approx 0.5 - 2$ $\ln c_{t+1} - \ln c_t \approx \theta R_{t+1} - \theta \rho$
- can "use" OLS
- using RA: $\theta = \frac{1}{\lambda} \approx 0.1 - 0.5$

(*) Prescott - calibration. (identification)

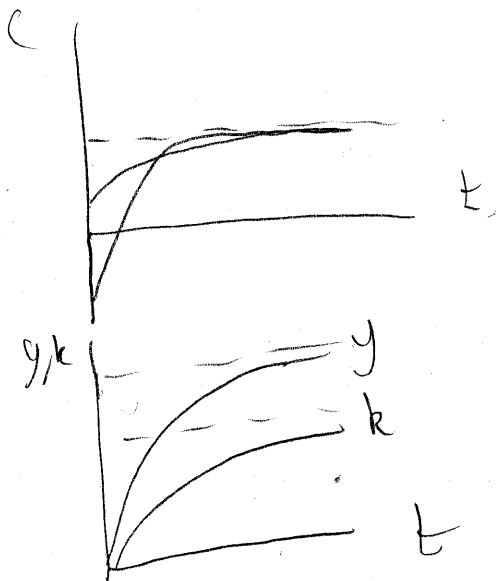
(*) Kydland- Prescott: Time to Build and Aggregate Fluctuations

(*) Rios-Rull - Castenada JPE 05 - good in

some dimensions, not good in others.

o 30-something parameters

o 30-something moment conditions



Draw phase diagrams for
 o expectation of productivity increase
 in 5 periods from now.