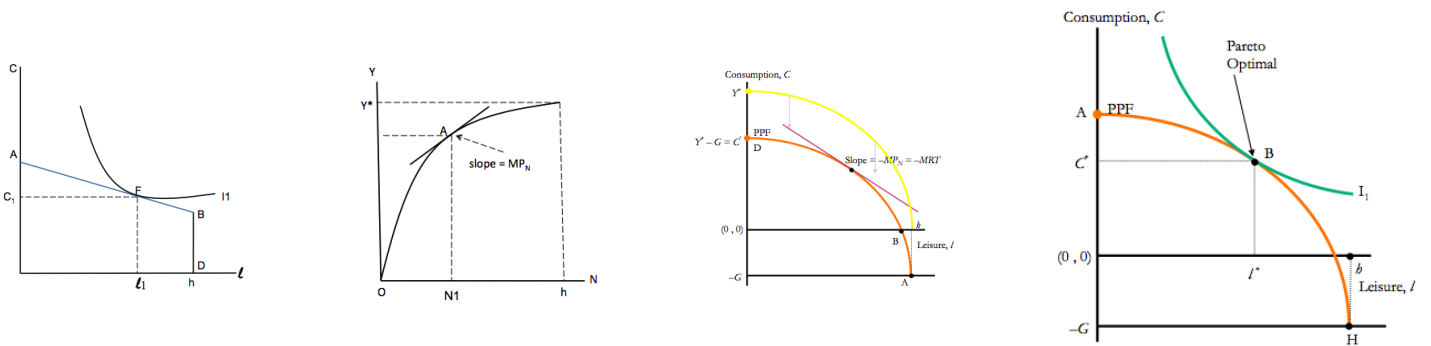


EE312 (1/2020 Section 046401)

1. Chapter.7 A Closed Economy One-Period Macroeconomic Model

- substitution effect and income effect
- consumer budget constraint



2. Chapter 8. Two Period Model Consumption-Savings Decision and The Credit Market

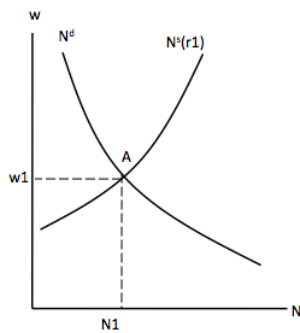
- substitution effect and income effect
- consumer budget constraint



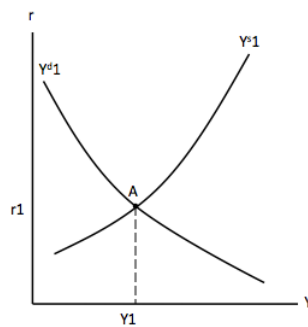
- temporary income
- permanent income
- interest rate
- Ricardian Equivalent & break down of Ricardian Equivalent

3. Chapter 9. A Real Intertemporal Model with Investment [G , K , Z , Z']

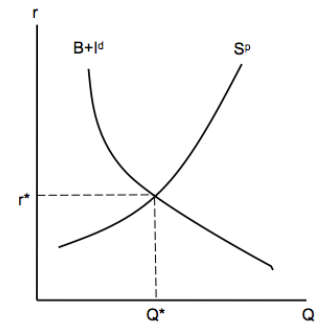
Step 2:
Labour Market



Step 1 :
Output Market



..
Credit Market



4. Chapter 10 (Part 1) Solow Growth Model

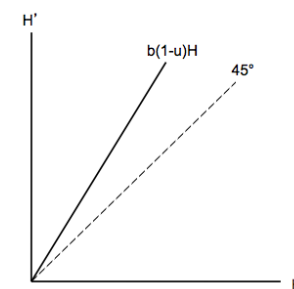
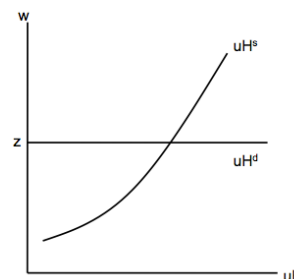
- Law of motion for aggregate capital : $K' = (1 - d)K + I$
- $k' = \dots$
steady state investment = steady state saving
- =



- change in population growth rate (n)
- change in saving rate (s) and Golden Rule
- change in total factor productivity
- poor country grows faster
- absolute convergence and conditional convergence

5. Chapter 10 (Part 2) Endogenous Growth Model

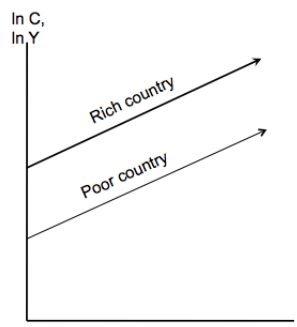
Consumers	Firm
$C = uwH^s$	$Y = zuH^d$
$H^{s'} = (1-u)bH^s$	$\pi = (z-w)uH^d$
$b =$ efficiency of human capital accumulation technology	The demand curve is infinitely elastic at $w = z$



- The market clears at $w = z$ where $uH^d = uH^s$.
- Equilibrium consumption and growth of human capital accumulation: $\frac{H'}{H} - 1 = b(1-u) - 1$, where $b(1-u) - 1$ is constant.
- $H' = b(1-u)H$.
- $H' > H$. Slope = $b(1-u)$ = rate of growth of human capital.
- More time spent on education, increase in efficiency of human capital accumulation promotes growth in human capital; $\frac{H'}{H} - 1 = b(1-u) - 1$, $b \uparrow$ or $u \downarrow \Rightarrow \frac{H'}{H} \uparrow$.
- Consumption and output grows at the same rate as human capital; $\frac{C'}{C} - 1 = \frac{zuH'}{zuH} - 1 = \frac{H'}{H} - 1 = b(1-u) - 1$.
- Growth is determined inside the model, by the value of b and u .

No convergence: rich and poor do not converge

- Countries with all identical characteristics except differences in initial human capital will not converge on the levels of consumption and income.
- The Y and Y time paths do not converge despite the same growth rate of $b(1-u)$.



Human capital externalities

- Why does convergence occur among rich countries?
- Why does not convergence occur among poor countries?