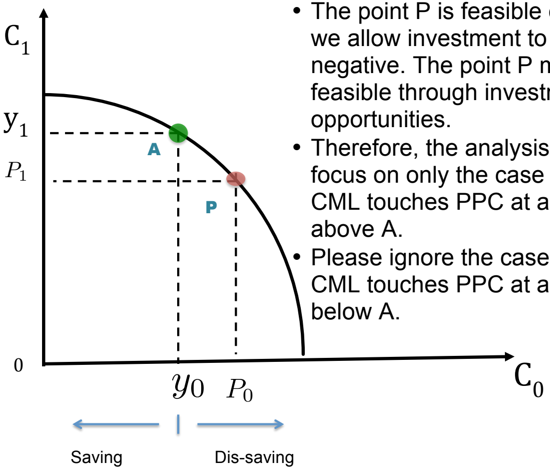
Capital, Consumption and Investment

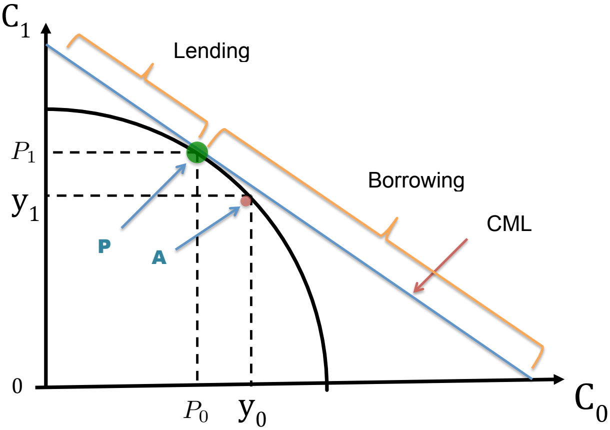
Correction and Supplementary

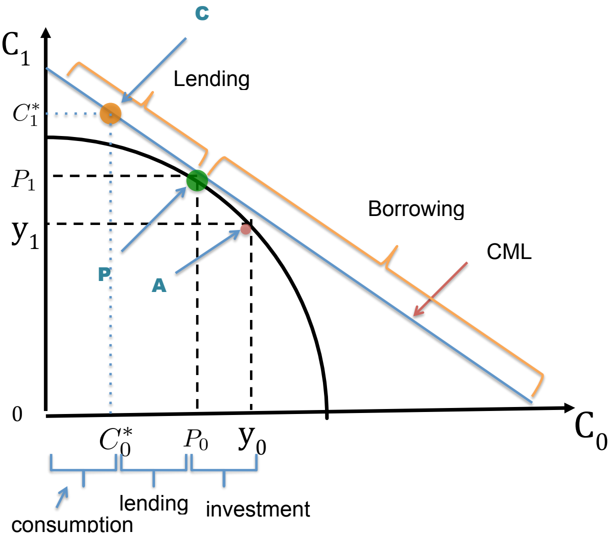
August 2011

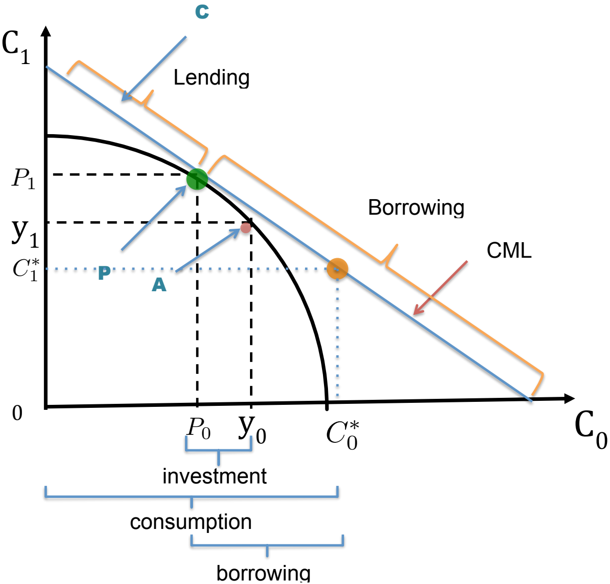
Topic 2: Correction

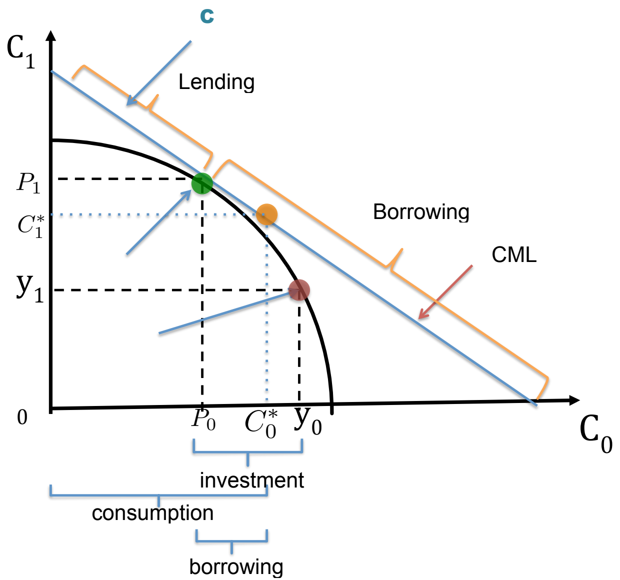


- The point P is feasible only when we allow investment to be negative. The point P might not be feasible through investment opportunities.
- Therefore, the analysis should focus on only the case where CML touches PPC at a point above A.
- Please ignore the case where CML touches PPC at a point below A.


C1
Lending
P1
y1
Borrowing
CML
P
A
0
P0
y0
C0


C
Lending
C_1
C_1^*
P_1
y_1
Borrowing
CML
P
A
0
C_0^*
P_0
y_0
C_0
lending
investment
consumption


C
C_1
Lending
P_1
y_1
C_1^*
P
A
Borrowing
CML
0
P_0
y_0
C_0^*
C_0
investment
consumption
borrowing


c
Lending
C_1
P_1
C_1^*
y_1
Borrowing
CML
0
P_0
C_0^*
y_0
C_0
investment
consumption
borrowing