Structure of the Dynamic Model

Pascal Michaillat
https://pascalmichaillat.org/c2/

Households :

- representative household
- real wealth into utility function → government bonds into the utility function (all wealth held as bonds)
- households save w/ bonds
- linear production function.

$$capacity = a \times h \leftarrow \text{# workers in household} = \text{labor force}$$

services that can be produced at any point in time

labor productivity (technology)

Government:

nominal
- issues √bonds , held by households
- set taxes (lump-sum) to finance interest payments
- central bank acts w/interest rate

nominal
→ governs interest payment on bonds.

Timing: continuous time $t \geq 0$