

ECON 401

Advanced Macroeconomics

Fabio Ghironi

University of Washington

Homework 4

Due in class on Wednesday, June 5, 2019

Textbook Chapter 21, Problems 3 and 4

On the Bilbiie-Ghironi-Melitz Model: Maximize the expected intertemporal utility in slide numbered 15 subject to the budget constraint in slide numbered 28 and the law of motion for N_t (recall slide numbered 27). The consumer chooses B_{t+1} , x_{t+1} , and L_t . Show that this yields the Euler equations and labor supply equation in slide 28. (Bonds are assumed to be risk-free. Hence, you can take $1+r_{t+1}$ outside the expectation operator in that Euler equation.)