Economics 314 **Spring 2013**
Daily Question #9 **February 18**

Continuing with Romer's Problem 2.7 on page 95:

1. Given the changes in the two loci associated with (a), (b), and (c), show (in the phase plane) the path that c and k will follow in converging to the new steady-state equilibrium.

2. Will the initial effect on c be positive or negative in each case, or can we not tell?

3. Sketch the time path of c and k in response to each change.

4. Sketch the time path of $\ln K$ and $\ln Y$ in response to each change. (Remember to think about how, if at all, the change affects the slope of the steady-state path.)