Economics 314 Spring 2014
Daily Question #10 February 20

On page 80, Romer develops the optimal consumption behavior of an individual in the Diamond overlapping-generations model.

1. In equation (2.54), what are the intuitive interpretations of C_{1t} and $A_t w_t$ in terms of consumption/saving behavior?
2. What is the intuitive interpretation of the fraction multiplied by $A_t w_t$ in (2.54) and how does that lead to (2.55)?
3. If we were to introduce taxes and or transfer payments into the model in either the first period or second period of life, how (if at all) would you expect this to change the expression that is currently $A_t w_t$ in (2.54)?
4. Would you expect such government tax or transfer programs to affect the saving rate $s(r)$? Why or why not?