

Economics 614: Macroeconomics II

Spring 2006

Cornell University

Problem Set #8

Due: Friday, March 31, 2006

1 Solow Growth Model, Continuous Time.

Impulse diagrams. Suppose the economy is in a steady-state, but at time t_0 the savings rate jumps from s_a to s_b , where $s_b > s_a$ (as below). Complete the graphs on the following page.

2 Question 1 Continued

Describe how the following affects the Solow diagram and the steady state.

- (a) The depreciation rate falls.
- (b) The production function is Cobb-Douglas and capital's share rises.
- (c) Workers exert more effort so that they do in 50 minutes what it took 60 minutes to do.

Do the above for continuous time *and* discrete time.