

Answer on Question #75262 - Economics / Macroeconomics

Bring out the salient feature of ramsey model for decentralization households (your answer should include the assumption, important equations, phase diagram annutd its interpretation).

Solution

There is a fixed number of identical households with an infinite time horizon. This feature makes aggregation very simple: we just have to multiply the behavior of a single household with the number of households. We may interpret the infinite horizon of the household as reflecting the presence of an altruistic bequest motive. That is, the household is seen as an infinitely-lived family, a dynasty, whose current members act in unity and are concerned about the utility from own consumption as well as the utility of the future generations within the family.¹ Every family has L_t members and L_t changes over time at a constant rate, ν : $L_t = L_0 e^{\nu t}$; $L_0 > 0$: (1) Indivisibility problems are ignored. Each family member supplies inelastically one unit of labor per time unit. Equation (1) therefore describes the growth of the population as well as the labor force. Since there is only one consumption good, the only decision problem is how to distribute current income between consumption and saving.

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