

ECONOMICS 8344 – Macroeconomic Theory III, Fall 2007

**Homework 4. Due October 24.**

This is about OR Chapter 10.

1. Derive the first order conditions (13), (14), and (15).
2. Derive equations (37) and (39) in OR on page 670–671 in all detail.
3. Derive/explain (40). Note that  $\bar{\mathbf{b}}$  is defined, differently than the other variables in this section, as the change in steady-state debt relative to steady-state world consumption.