Problem Set 5

Example 1

Suppose, the following tax program is introduced. The government taxes capital income at some constant rate, τ_k and rebates the tax revenue in a lump sum fashion back to all households. How does this "tax reform" affect (i) the saving rate, and (ii) the endogenous per capita income growth rate?

Problem Set 5

Example 2.

As before, let $\rho > n$ to ensure a bounded utility integral. How does the endogenous growth rate change, if households not only derive utility from consumption, but also from wealth, k_t in addition? Specifically, consider the following utility function:

$$u(c_t, k_t) = \ln c_t + s \ln k_t \,, \quad s \geq 0 \,.$$

Does the preference for wealth raise the endogenous growth rate?