Micro-Article by Philipp Wegmüller Week5/2015

prepared for the second session

**Guiding Question**

Problems in finding the steady state of my model!

**Milestones**

So far I have read the paper and derived all the necessary equations of my general equilibrium. Yet first of all it was not clear to me, which functional form for investment adjustment costs I had to assume. After some search in the internet I have considered the functional form proposed in CEE (2005). In doing so, I then tried to derive the steady state of the model. I also typed the necessary equations in Dynare and have set up a .mod file with which I try to run a baseline version of the model. When I simulate the model without adjustment costs and log-separable utility, I do not encounter any problems and obtain meaningful solutions. This solution method was proposed to me by my peer and I also got some ideas during the PC-lab sessions. I understood the main mechanisms in the paper and know which tables I want to replicate. I also have the necessary knowledge to perform the analysis once I have a working code.

**Main Problem**

Once I want to introduce the utility function proposed in the paper I cannot derive the steady state. I understand how to derive the great ratios as you showed in class, but due to the non-separability in consumption and leisure I am not confident if I have to calibrate or derive the value of certain parameters. Here I would like to have some help and get some information from the assistant. In what concerns the steps mentioned in the outline, I consider myself to be working on point 4. In order to continue with my work, I send you in the appendix also an outline of the general equilibrium (with pencil and paper) and I highlight the equations where I think to have a problem. To facilitate your work, you can also write a mail back to me clarifying the most important steps. In the meantime I will be working further on the model and try to solve it myself.

**Next Milestones**

* Get a working version of my model
* Derive the tables as in the paper and compare the results
* Do some sensitivity analysis
* Prepare the presentation
* Write the paper including the comments by the professors