

Quiz 14. Review of the recursive centralized model in Chapter 8

1. Set up the decentralized model of Chapter 8.
 - a. Write down the Bellman equation and the four constraints
 - b. Write down the modified Bellman equation with constraints substituted in for consumption demand and leisure (labor supply).

2. Write down the first order conditions and the envelope condition.
 - a. Substitute in the envelope condition to get the two FOCs that represent the intertemporal and intratemporal margins.
 - b. Derive the consumption demand and consumption supply equations.