

Exercise 3: The Ramsey Model

1. Derive the steady state conditions for the Ramsey model assuming positive depreciation: $\delta > 0$.
2. Consider a Ramsey economy in its steady state. What is the effect of a fall in the rate of technological progress, g ? How will this change affect the two steady-state conditions, i.e. the $\dot{c} = 0$ and $\dot{k} = 0$ curves? What happens to consumption at the time of the change, does it fall or rise?