

Correction to problem set 2, question 2 of Macroeconomic theory

The calibration in question 2 is problematic because beta becomes too high. This makes it difficult to answer questions 3 and 4.

So let us change $\delta=0.1$ to $\delta=0.05$ in question 2. That should do it. I am sorry about the confusion.

If you wish, you can also keep $\sigma=1$ so that you have the logarithmic utility.