

UNIVERSITY OF MARYLAND
Department of Economics

Political Economy in Macroeconomics -- Exercise 2

1. For the capital taxation problem in section 4.2 of the book, derive the exact solutions for:
 - a) the “command optimum” (*i.e.*, equation (4.4));
 - b) the time-inconsistent solution resulting from choosing τ^k , τ^l , τ^{ka} , and τ^{la} independently;
 - c) the optimal precommitment solution
 - d) the time-consistent solution.

2. For the Barro-Gordon problem in section 4.4, derive equations (4.16), (4.17), and (4.19).