

ECON 8108 Victor Rios-Rull
Problem Set 2

1. Take the heterogeneous-agent model of section 4. Define an RCE where you don't have symmetric measure of agents.
2. Take the Lucas tree in 5.1. Price an option that allows you to sell, either 1 share of the tree tomorrow at price P , or 2 shares of the tree the day after tomorrow at price Q each.
3. Take the model in 5.2. Verify that if the agent is 'more hungry'—high value of θ , then price of the tree, $p(\theta)$ will be lower. Identify, if any, assumptions you need.