









| G | NEF | RALISSUES | |
|---|--------------------|---|--|
| | Primal Formulation | | |
| | | Formulate optimal policy problem in terms of ou By eliminating policy variables (and price conditions | nly allocations s) using equilibrium |
| | | Given optimal allocation, construct (implied) policy instruments that support allocation | |
| | | Ramsey (1927) | |
| | | Approach often employed in fiscal policy models | |
| | | Only recently applied more frequently to r | monetary policy mode |
| | Commitment | | |
| | | With initial state variable and/or forward-looki conditions, policy FOCs for $t = 0$ differ from policy | ng equilibrium icy FOCs for <i>t</i> > 0 |
| | | Assume government can bind itself to state-cor > 0 | ntingent policy paths f |
| | | (Opposite of commitment is discretion) | pretation: the optimal policy h dy been in operation for a long ignoring transition dynamics |
| | Tim | neless Perspective | iated with initially-suboptimal es |
| | | Set $t = 0$ state to the steady-state of the $t > 0$ p | policy FOCs |























