





Sт	EADY STATE
	Steady state
	A concept from differential equations
	Optimality conditions of economic models are differential equations.
	Heuristic definition: in a dynamic (mathematical) system, a steady- state is a condition in which the variables that are moving over time settle down to constant values
	In dynamic macro models, a steady state is a condition in which a <u>real</u> variables settle down to constant values
	But nominal variables (i.e., price level) may still be moving over time (will be important in monetary models – Chapter 14)
	Simple example
	Suppose M _t /P _t = c _t is an optimality condition of an economic model (c _t is consumption, P _t is nominal price level, M _t is nominal money stock of economy)
	Even if c _t eventually becomes constant over time (i.e., reaches a steady- state), it is <u>possible</u> for <u>both</u> M _t and P _t to continue growing over time (at the same rate of course)
	Bottom line: in ss, <u>real</u> variables do not change over time, nomin







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