Ramsey and Diamond models:Summing up

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Assumptions

Similarities

- Motive for saving is future consumption
- Discounting
- Consumption smoothing

Differences

- Time horizon
- Attitude to descendants

Similar results

- Economies starting with a low capital intensity will grow faster than the natural rate until they reach a steady state
- During the approach to steady state, real wages will increase fast while the real return on capital will decline
- Productivity growth prevents the return on capital to go down to zero
- Rapid population growth may reduce the standard of living
- Government consumption crowds out private consumption

Results differ

- Dynamic inefficiency
- Ricardian equivalence, timing of taxes
- Government debt
- Pension systems
- Whether government consumption crowds out investment

Some important issus

- Bequest, existence, motives, constraints $U_t = u(c_t) + U_{t+1}$ versus $U_t = u(c_t) + u(b_{t+1})$
- Ricardian equivalence, expectations, uncertainty, borrowing constraints
- Saving in spite of high pensions
- Motives for saving