

Growth and Development Economics
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Homework 7, due Wed March 15 at 1.00pm

Question 1. A Political-Economic Equilibrium: Progressive Consumption Subsidies/Income Taxes

1. Introduce a consumption subsidy and income in the rural areas of your HAST economy in Homework 6. Rewrite your dynamic program accordingly.
2. Define a recursive politico-economic equilibrium associated with the degree of progressivity of the tax code.
3. Provide a solution algorithm to solve for your politico-economic equilibrium.