

# **Perturbation Methods for a 2D Growth Models**

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## Deterministic Model

```
In[7]:= x = 0; Remove["Global`*"]
```

### ■ Setup

We define the Euler equation for a simple growth model.

$f_i[k_i]$  is the production function;  $c_i[k_1, k_2]$  is the (unknown) consumption policy function.

$k_{iplus}$  and  $c_{iplus}$  are the next period's capital stock and consumption

```
In[8]:= k1plus = f1[k1] - c1[k1, k2];
c1plus = c1[k1plus, k2plus];
k2plus = f2[k2] - c2[k1, k2];
c2plus = c2[k1plus, k2plus];
EulerEq =
  {u1[c1[k1, k2], c2[k1, k2]] - β u1[c1plus, c2plus] f1'[k1plus],
   u2[c1[k1, k2], c2[k1, k2]] - β u2[c1plus, c2plus] f2'[k2plus]}

Out[12]= {u1[c1[k1, k2], c2[k1, k2]] - β u1[c1[-c1[k1, k2] + f1[k1], -c2[k1, k2] + f2[k2]],
          c2[-c1[k1, k2] + f1[k1], -c2[k1, k2] + f2[k2]]] f1'[-c1[k1, k2] + f1[k1]],
          u2[c1[k1, k2], c2[k1, k2]] - β u2[c1[-c1[k1, k2] + f1[k1], -c2[k1, k2] + f2[k2]],
          c2[-c1[k1, k2] + f1[k1], -c2[k1, k2] + f2[k2]]] f2'[-c2[k1, k2] + f2[k2]]}
```

Choose utility and production functions. Put a free parameter,  $A$ , in  $f[k]$  so that we can later fix the steady state capital stock.

```
In[13]:= u[x_, y_] = Log[x] + Sqrt[y];
u1[x_, y_] = D[u[x, y], x];
u2[x_, y_] = D[u[x, y], y];
f1[x_] = x + A x^α;
f2[x_] = x + A x^α;
α = 1. / 4;
β = 95 / 100;
```

We want the steady state capital stock to be  $k=1$  since it makes it easier to understand the results.

Choose  $A$  so that  $\beta f'[1]=1$ .

```
In[20]:= A = A /. Solve[f1'[1] == 1 / β, A][[1]]
```

```
Out[20]= 0.210526
```

Let's look at our Euler equation

In[21]:= **EulerEq**

$$\text{Out[21]} = \left\{ \frac{1}{c1[k1, k2]} - \frac{19 \left( 1 + \frac{0.0526316}{(0.210526 k1^{0.25} + k1 - c1[k1, k2])^{0.75}} \right)}{20 c1[0.210526 k1^{0.25} + k1 - c1[k1, k2], 0.210526 k2^{0.25} + k2 - c2[k1, k2]]}, \right. \\ \left. \frac{1}{2 \sqrt{c2[k1, k2]}} - \frac{19 \left( 1 + \frac{0.0526316}{(0.210526 k2^{0.25} + k2 - c2[k1, k2])^{0.75}} \right)}{40 \sqrt{c2[0.210526 k1^{0.25} + k1 - c1[k1, k2], 0.210526 k2^{0.25} + k2 - c2[k1, k2]]}} \right\}$$

ss is a list of substitutions that impose the steady state,  $k=1$ , and some substitutions that convert floating point versions of 1 and 0 to integer versions.

In[22]:= **ss = {k1 → 1, k2 → 1, 1. → 1, 0. → 0}**

Out[22]= {k1 → 1, k2 → 1, 1. → 1, 0. → 0}

The steady state consumption is defined next

In[23]:= **c1[1, 1] = c2[1, 1] = css = f1[1] - 1**

Out[23]= 0.210526

Now check the Euler equation at the steady state.

In[24]:= **EulerEq // . ss**

Out[24]= {8.88178 × 10<sup>-16</sup>, 2.22045 × 10<sup>-16</sup>}

sol will be the list of solutions for derivatives of  $c[k]$ . We begin the construction by setting sol to be the empty set.

In[25]:= **sol = {};**

### ■ prep for pert

In[26]:= **EulerEqe = EulerEq /. k1 → 1 + ε κ1 /. k2 → 1 + ε κ2**

$$\text{Out[26]= } \left\{ \frac{1}{c1[1 + \epsilon \kappa1, 1 + \epsilon \kappa2]} - \left( 19 \left( 1 + \frac{0.0526316}{(1 + \epsilon \kappa1 + 0.210526 (1 + \epsilon \kappa1)^{0.25} - c1[1 + \epsilon \kappa1, 1 + \epsilon \kappa2])^{0.75}} \right) \right) \right\} /$$

$$\left( 20 c1[1 + \epsilon \kappa1 + 0.210526 (1 + \epsilon \kappa1)^{0.25} - c1[1 + \epsilon \kappa1, 1 + \epsilon \kappa2], \right.$$

$$\left. 1 + \epsilon \kappa2 + 0.210526 (1 + \epsilon \kappa2)^{0.25} - c2[1 + \epsilon \kappa1, 1 + \epsilon \kappa2] \right),$$

$$\frac{1}{2 \sqrt{c2[1 + \epsilon \kappa1, 1 + \epsilon \kappa2]}} - \left( 19 \left( 1 + \frac{0.0526316}{(1 + \epsilon \kappa2 + 0.210526 (1 + \epsilon \kappa2)^{0.25} - c2[1 + \epsilon \kappa1, 1 + \epsilon \kappa2])^{0.75}} \right) \right) \right\} /$$

$$\left( 40 \sqrt{c2[1 + \epsilon \kappa1 + 0.210526 (1 + \epsilon \kappa1)^{0.25} - c1[1 + \epsilon \kappa1, 1 + \epsilon \kappa2], \right.$$

$$\left. 1 + \epsilon \kappa2 + 0.210526 (1 + \epsilon \kappa2)^{0.25} - c2[1 + \epsilon \kappa1, 1 + \epsilon \kappa2] \right) \right\}$$

In[27]:= **subs = {cc\_{(i,j)} [1, 1] → cc\_{i,j}}**

Out[27]= {cc\_{(i,j)} [1, 1] → cc\_{i,j}}

### ■ k pert

The Euler equation must hold at all k. Therefore, its derivative w.r.t. k must also be zero at all k. Compute the derivative of the EulerEq

In[28]:= **D[EulerEqe, ε];**  
**% /. ε → 0 /. 1. → 1**

$$\text{Out[29]= } \left\{ 0.178125 (1.05263 \kappa1 - \kappa2 c1^{(0,1)} [1, 1] - \kappa1 c1^{(1,0)} [1, 1]) - \right.$$

$$22.5625 (\kappa2 c1^{(0,1)} [1, 1] + \kappa1 c1^{(1,0)} [1, 1]) +$$

$$22.5625 (c1^{(1,0)} [1, 1] (1.05263 \kappa1 - \kappa2 c1^{(0,1)} [1, 1] - \kappa1 c1^{(1,0)} [1, 1]) +$$

$$c1^{(0,1)} [1, 1] (1.05263 \kappa2 - \kappa2 c2^{(0,1)} [1, 1] - \kappa1 c2^{(1,0)} [1, 1])),$$

$$0.0408647 (1.05263 \kappa2 - \kappa2 c2^{(0,1)} [1, 1] - \kappa1 c2^{(1,0)} [1, 1]) -$$

$$2.5881 (\kappa2 c2^{(0,1)} [1, 1] + \kappa1 c2^{(1,0)} [1, 1]) +$$

$$2.5881 ((1.05263 \kappa1 - \kappa2 c1^{(0,1)} [1, 1] - \kappa1 c1^{(1,0)} [1, 1]) c2^{(1,0)} [1, 1] +$$

$$c2^{(0,1)} [1, 1] (1.05263 \kappa2 - \kappa2 c2^{(0,1)} [1, 1] - \kappa1 c2^{(1,0)} [1, 1])) \right\}$$

In[30]:= **% /. subs // Simplify**

$$\text{Out[30]= } \left\{ -22.5625 \kappa1 (-0.116233 + c1_{1,0}) (0.0714964 + c1_{1,0}) + \right.$$

$$c1_{0,1} (1.00937 \kappa2 - 22.5625 \kappa2 c1_{1,0} - 22.5625 \kappa2 c2_{0,1} - 22.5625 \kappa1 c2_{1,0}),$$

$$0.0430155 \kappa2 - 2.5881 \kappa2 c2_{0,1}^2 + (0.0953509 \kappa1 - 2.5881 \kappa2 c1_{0,1} - 2.5881 \kappa1 c1_{1,0}) c2_{1,0} +$$

$$c2_{0,1} (0.0953509 \kappa2 - 2.5881 \kappa1 c2_{1,0}) \left. \right\}$$

In[31]:= **SolveAlways[% == 0, {κ1, κ2}]**

$$\text{Out[31]= } \left\{ \{c1_{0,1} \rightarrow 0., c1_{1,0} \rightarrow -0.0714964, c2_{0,1} \rightarrow -0.111809, c2_{1,0} \rightarrow 0.\}, \right.$$

$$\{c1_{0,1} \rightarrow 0., c1_{1,0} \rightarrow -0.0714964, c2_{0,1} \rightarrow 0.148651, c2_{1,0} \rightarrow 0.\},$$

$$\{c1_{0,1} \rightarrow 0., c1_{1,0} \rightarrow 0.116233, c2_{0,1} \rightarrow -0.111809, c2_{1,0} \rightarrow 0.\},$$

$$\{c1_{0,1} \rightarrow 0., c1_{1,0} \rightarrow 0.116233, c2_{0,1} \rightarrow 0.148651, c2_{1,0} \rightarrow 0.\} \left. \right\}$$

There are two solutions, one corresponding to the stable manifold and the other one corresponding to the unstable manifold. We choose the second one because we know that  $c'[1] > 0$ , and put it in the solution set.

```
In[32]:= sol = Union[sol, % // Last]
```

```
Out[32]= {c10,1 → 0., c11,0 → 0.116233, c20,1 → 0.148651, c21,0 → 0.}
```

```
In[33]:= sol = sol /. 0. → 0
```

```
Out[33]= {c10,1 → 0, c11,0 → 0.116233, c20,1 → 0.148651, c21,0 → 0}
```

## ■ k pert - degree 2

We now move on to the second derivative

```
In[34]:= D[EulerEqe, {ε, 2}];
% /. ε → 0 /. 1. → 1 /. subs;

In[36]:= % /. sol

Out[36]= {2.72335 κ12 - 22.5625 (κ2 (κ2 c10,2 + κ1 c11,1) + κ1 (κ2 c11,1 + κ1 c12,0)) -
0.2375 (1.15086 κ12 - 0.75 (-0.0394737 κ12 - κ2 (κ2 c10,2 + κ1 c11,1) - κ1 (κ2 c11,1 + κ1 c12,0))) -
1. (2.53917 κ12 - 22.5625 (0.903981 κ2 (0.903981 κ2 c10,2 + 0.936398 κ1 c11,1) +
0.936398 κ1 (0.903981 κ2 c11,1 + 0.936398 κ1 c12,0) + 0.116233
(-0.0394737 κ12 - κ2 (κ2 c10,2 + κ1 c11,1) - κ1 (κ2 c11,1 + κ1 c12,0)))}, -0.0235791 κ22 -
0.0544862 (1.07255 κ22 - 0.75 (-0.0394737 κ22 - κ2 (κ2 c20,2 + κ1 c21,1) - κ1 (κ2 c21,1 + κ1 c22,0))) +
1
2 (0.81495 κ22 - 5.17619 (κ2 (κ2 c20,2 + κ1 c21,1) + κ1 (κ2 c21,1 + κ1 c22,0))) -
0.5 (0.665961 κ22 - 5.17619 (0.903981 κ2 (0.903981 κ2 c20,2 + 0.936398 κ1 c21,1) +
0.936398 κ1 (0.903981 κ2 c21,1 + 0.936398 κ1 c22,0) +
0.148651 (-0.0394737 κ22 - κ2 (κ2 c20,2 + κ1 c21,1) - κ1 (κ2 c21,1 + κ1 c22,0)))}
```

```
In[37]:= CoefficientList[%, {κ1, κ2}]

Out[37]= {{0, 0, -6.92549 c10,2}, {0, -12.5286 c11,1, 0}, {-0.199701 - 5.57939 c12,0, 0, 0}},
{{0, 0, -0.0243237 - 0.898741 c20,2}, {0, -1.64579 c21,1, 0}, {-0.744333 c22,0, 0, 0}}
```

```
In[38]:= % // Flatten // Union // Rest

Out[38]= {-6.92549 c10,2, -12.5286 c11,1, -0.199701 - 5.57939 c12,0,
-0.0243237 - 0.898741 c20,2, -1.64579 c21,1, -0.744333 c22,0}
```

```
In[39]:= eqs = %

Out[39]= {-6.92549 c10,2, -12.5286 c11,1, -0.199701 - 5.57939 c12,0,
-0.0243237 - 0.898741 c20,2, -1.64579 c21,1, -0.744333 c22,0}
```

```
In[40]:= vars = Variables[eqs]

Out[40]= {c10,2, c11,1, c12,0, c20,2, c21,1, c22,0}
```

This is a linear expression in terms of the unknown c"[1]. Solve it

```
In[41]:= Solve[eqs == 0, vars]

Out[41]= {{c10,2 → 0., c11,1 → 0., c12,0 → -0.0357926, c20,2 → -0.0270642, c21,1 → 0., c22,0 → 0.}}
```

and add this solution to our solution set

```
In[42]:= sol = Union[sol, %[[1]]] // Simplify

Out[42]= {c10,1 → 0, c10,2 → 0., c11,0 → 0.116233, c11,1 → 0., c12,0 → -0.0357926,
c20,1 → 0.148651, c20,2 → -0.0270642, c21,0 → 0, c21,1 → 0., c22,0 → 0.}
```

```
In[43]:= sol = sol /. 0. → 0

Out[43]= {c10,1 → 0, c10,2 → 0, c11,0 → 0.116233, c11,1 → 0, c12,0 → -0.0357926,
c20,1 → 0.148651, c20,2 → -0.0270642, c21,0 → 0, c21,1 → 0, c22,0 → 0}
```

### ■ k pert - degree 3

We will now express the steps in a more compact manner

```
In[44]:= D[EulerEqe, {ε, 3}];
% /. ε → 0 /. 1. → 1 /. subs;
% /. sol;
CoefficientList[%, {x1, x2}];
% // Flatten // Union // Rest;
eqs = %
vars = Variables[eqs]
Solve[eqs == 0, vars]
sol = Union[sol, %[[1]]] // Simplify

Out[49]= {-8.69586 c10,3, -24.2945 c11,2, -22.437 c12,1, 0.370006 - 6.83767 c13,0,
0.0436706 - 1.10182 c20,3, -3.09976 c21,2, -2.8867 c22,1, -0.888667 c23,0}

Out[50]= {c10,3, c11,2, c12,1, c13,0, c20,3, c21,2, c22,1, c23,0}

Out[51]= {{c10,3 → 0., c11,2 → 0., c12,1 → 0.,
c13,0 → 0.0541129, c20,3 → 0.0396351, c21,2 → 0., c22,1 → 0., c23,0 → 0.}}

Out[52]= {c10,1 → 0, c10,2 → 0, c10,3 → 0., c11,0 → 0.116233, c11,1 → 0, c11,2 → 0.,
c12,0 → -0.0357926, c12,1 → 0., c13,0 → 0.0541129, c20,1 → 0.148651, c20,2 → -0.0270642,
c20,3 → 0.0396351, c21,0 → 0, c21,1 → 0, c21,2 → 0., c22,0 → 0, c22,1 → 0., c23,0 → 0.}

In[53]:= sol = sol /. 0. → 0

Out[53]= {c10,1 → 0, c10,2 → 0, c10,3 → 0, c11,0 → 0.116233, c11,1 → 0, c11,2 → 0,
c12,0 → -0.0357926, c12,1 → 0, c13,0 → 0.0541129, c20,1 → 0.148651, c20,2 → -0.0270642,
c20,3 → 0.0396351, c21,0 → 0, c21,1 → 0, c21,2 → 0, c22,0 → 0, c22,1 → 0, c23,0 → 0}
```

## ■ k pert - degree 4

We will now express the steps in a more compact manner

```
In[54]= D[EulerEqe, {ε, 4}];
% /. ε → 0 /. 1. → 1 /. subs;
% /. sol;
CoefficientList[%, {x1, x2}];
% // Flatten // Union // Rest;
eqs = %
vars = Variables[eqs];
Solve[eqs == 0, vars];
sol = Union[sol, %[[1]]] /. 0. → 0 // Simplify

Out[59]= {-10.2962 c10,4, -39.0237 c11,3, -55.1774 c12,2, -34.4659 c13,1, -1.08824 - 8.01592 c14,0,
-0.12473 - 1.28539 c20,4, -4.89366 c21,3, -6.95528 c22,2, -4.37084 c23,1, -1.02382 c24,0}

Out[62]= {c10,1 → 0, c10,2 → 0, c10,3 → 0, c10,4 → 0, c11,0 → 0.116233, c11,1 → 0, c11,2 → 0, c11,3 → 0,
c12,0 → -0.0357926, c12,1 → 0, c12,2 → 0, c13,0 → 0.0541129, c13,1 → 0, c14,0 → -0.135759,
c20,1 → 0.148651, c20,2 → -0.0270642, c20,3 → 0.0396351, c20,4 → -0.0970362, c21,0 → 0,
c21,1 → 0, c21,2 → 0, c21,3 → 0, c22,0 → 0, c22,1 → 0, c22,2 → 0, c23,0 → 0, c23,1 → 0, c24,0 → 0}
```



## ■ k pert - degree 5

We will now express the steps in a more compact manner

```
In[63]= D[EulerEqe, {ε, 5}];
% /. ε → 0 /. 1. → 1 /. subs;
% /. sol;
CoefficientList[%, {x1, x2}];
% // Flatten // Union // Rest;
eqs = %
vars = Variables[eqs];
Solve[eqs == 0, vars];
sol = Union[sol, %[[1]]] /. 0. → 0 // Simplify

Out[68]= {-11.743 c10,5, -56.2726 c11,4, -107.486 c12,3, -102.245 c13,2,
-48.4079 c14,1, 4.34358 - 9.11923 c15,0, 0.485097 - 1.45134 c20,5,
-6.97658 c21,4, -13.3728 c22,3, -12.7716 c23,2, -6.07443 c24,1, -1.15038 c25,0}

Out[71]= {c10,1 → 0, c10,2 → 0, c10,3 → 0, c10,4 → 0, c10,5 → 0, c11,0 → 0.116233, c11,1 → 0,
c11,2 → 0, c11,3 → 0, c11,4 → 0, c12,0 → -0.0357926, c12,1 → 0, c12,2 → 0, c12,3 → 0,
c13,0 → 0.0541129, c13,1 → 0, c13,2 → 0, c14,0 → -0.135759, c14,1 → 0, c15,0 → 0.47631,
c20,1 → 0.148651, c20,2 → -0.0270642, c20,3 → 0.0396351, c20,4 → -0.0970362,
c20,5 → 0.33424, c21,0 → 0, c21,1 → 0, c21,2 → 0, c21,3 → 0, c21,4 → 0, c22,0 → 0, c22,1 → 0,
c22,2 → 0, c22,3 → 0, c23,0 → 0, c23,1 → 0, c23,2 → 0, c24,0 → 0, c24,1 → 0, c25,0 → 0}
```

## ■ k pert - degree more

We will now express the steps in a more compact manner

```
In[72]:= sol5 = sol;
```

```
In[73]:= sol = sol5
```

```
Out[73]= {c10,1 → 0, c10,2 → 0, c10,3 → 0, c10,4 → 0, c10,5 → 0, c11,0 → 0.116233, c11,1 → 0,
  c11,2 → 0, c11,3 → 0, c11,4 → 0, c12,0 → -0.0357926, c12,1 → 0, c12,2 → 0, c12,3 → 0,
  c13,0 → 0.0541129, c13,1 → 0, c13,2 → 0, c14,0 → -0.135759, c14,1 → 0, c15,0 → 0.47631,
  c20,1 → 0.148651, c20,2 → -0.0270642, c20,3 → 0.0396351, c20,4 → -0.0970362,
  c20,5 → 0.33424, c21,0 → 0, c21,1 → 0, c21,2 → 0, c21,3 → 0, c21,4 → 0, c22,0 → 0, c22,1 → 0,
  c22,2 → 0, c22,3 → 0, c23,0 → 0, c23,1 → 0, c23,2 → 0, c24,0 → 0, c24,1 → 0, c25,0 → 0}
```

```
In[74]:= Do[
  d0 = D[EulerEq, {ε, jjj}];
  d1 = d0 /. ε → 0 /. 1. → 1 /. subs;
  d2 = d1 /. sol;
  d3 = CoefficientList[d2, {κ1, κ2}];
  eqs = d3 // Flatten // Union // Rest;
  vars = Variables[eqs];
  solnew = Solve[eqs == 0, vars];
  sol = Union[sol, solnew[[1]]] /. 0. → 0 // Simplify,
  {jjj, 6, 8}]
```

```
In[75]:= Length[sol]
```

```
Out[75]= 88
```

```
In[76]:= sol
```

```
Out[76]= {c10,1 → 0, c10,2 → 0, c10,3 → 0, c10,4 → 0, c10,5 → 0, c10,6 → 0, c10,7 → 0, c10,8 → 0,
  c11,0 → 0.116233, c11,1 → 0, c11,2 → 0, c11,3 → 0, c11,4 → 0, c11,5 → 0, c11,6 → 0, c11,7 → 0,
  c12,0 → -0.0357926, c12,1 → 0, c12,2 → 0, c12,3 → 0, c12,4 → 0, c12,5 → 0, c12,6 → 0,
  c13,0 → 0.0541129, c13,1 → 0, c13,2 → 0, c13,3 → 0, c13,4 → 0, c13,5 → 0, c14,0 → -0.135759,
  c14,1 → 0, c14,2 → 0, c14,3 → 0, c14,4 → 0, c15,0 → 0.47631, c15,1 → 0, c15,2 → 0, c15,3 → 0,
  c16,0 → -2.14781, c16,1 → 0, c16,2 → 0, c17,0 → 11.8364, c17,1 → 0, c18,0 → -77.0954,
  c20,1 → 0.148651, c20,2 → -0.0270642, c20,3 → 0.0396351, c20,4 → -0.0970362, c20,5 → 0.33424,
  c20,6 → -1.48609, c20,7 → 8.10074, c20,8 → -52.3138, c21,0 → 0, c21,1 → 0, c21,2 → 0,
  c21,3 → 0, c21,4 → 0, c21,5 → 0, c21,6 → 0, c21,7 → 0, c22,0 → 0, c22,1 → 0, c22,2 → 0, c22,3 → 0,
  c22,4 → 0, c22,5 → 0, c22,6 → 0, c23,0 → 0, c23,1 → 0, c23,2 → 0, c23,3 → 0, c23,4 → 0,
  c23,5 → 0, c24,0 → 0, c24,1 → 0, c24,2 → 0, c24,3 → 0, c24,4 → 0, c25,0 → 0, c25,1 → 0,
  c25,2 → 0, c25,3 → 0, c26,0 → 0, c26,1 → 0, c26,2 → 0, c27,0 → 0, c27,1 → 0, c28,0 → 0}
```