

The Modelling of the Fund Mechanism

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Modelling

- Jeg har ikke noe valg, jeg må velge
Supernova, Dumdum Boys 2018
- Costs of withdrawal
- If you use more today you have less for the future
- Are there additional costs?
- Yes – the literature points to many
- But how to incorporate them in a model?
- That depends on the model

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Steady State

- Assume no growth in steady state: $r = r - g$
- If you have growth in steady state then rule which says $TOR = r - g$ stabilizes TOR/GDP
- So one interpretation in the model is that $r = r - g$ but this r is not 3 but $3 - 1.5 = 1.5$
- On the other hand, this is not what the rule is
- Hard to model steady state, since with the existing rule, there is no steady state (except one without a fund which is rather uninteresting)

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Optimization

- The households that optimize in principle take the fund fully into account
- Makes it very complicated ...
- But rule of thumb makes it easy?
- No, not at all
- The intertemporal budget constraint
- Start out pragmatic
- Add the intertemporal budget constraint and make many of the variables exogenous

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Conclusion

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