Main assumptions

- According to institutional aspects of economies in transition the backward-looking agent’s behavior is a key element.
- Small open economy.

Households

\[ E \sum_{i} \beta I(U(C, N)) \rightarrow \max \]

\[ U(C, N) = \frac{C^{\alpha}}{1 - \alpha} \cdot \frac{N^{1-\alpha}}{1 + \phi} \]

\[ C_t = \frac{1}{1 - \alpha} \left[ (1 - \alpha)^{\frac{1}{1-\alpha}} \cdot C_{x,t} \right] + \alpha \left[ (1 - \alpha)^{\frac{1}{1-\alpha}} \cdot C_{y,t} \right] \]

\[ C_{t} := \left( \int C_{x,t} \left( \frac{dC_{t}}{dC_{t}} \right) \right)^{\alpha} : C_{t-1} := \left( \int C_{y,t} \left( \frac{dC_{t}}{dC_{t}} \right) \right)^{\alpha} : C_{t} := \left( \int C_{y,t} \left( \frac{dC_{t}}{dC_{t}} \right) \right)^{\alpha} \]

\[ \sum_{j} \int P_{H,t}(j) C_{H,t}(j) \delta j + \sum_{j} \int P_{L,t}(j) C_{L,t}(j) \delta j \]

\[ + E_t \{ Q_{t+1} | D_{t+1} \} \leq D_t + W_t N_t + T_t \]

Households

The solving of expenditures' minimization problem and Dixit-Stiglitz demand derivation let us aggregate the variables and rewrite the budget constraint as follows:

\[ P_t C_t + E_t \{ Q_{t+1} | D_{t+1} \} \leq D_t + W_t N_t + T_t \]

Households

FOC

\[ C_t^{\alpha} N_t^{1-\alpha} = \frac{W_t}{P_t} \]

\[ Q_t = \beta E_t \left[ \frac{C_{t+1}}{C_t} \left( \frac{P_{t+1}}{P_{t}} \right) \right]^{-\alpha} \]

\[ Q_t = E_t \{ Q_{t+1} \} \]