Co-monotonic Allocation with Heterogeneous Agents and Non-Linear -Discounting Utility

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Abstract

Time Additively Separable utility function $U(c_0, c_1 \ldots) = \sum_{t=0}^{\infty} \beta^t u(c_t)$ has been employed in many dynamic models. Because of its fixed discount factor, saving is concentrated on the most patient consumer in the stationary equilibrium. However *recursive* utility function allows variable discounting dependent on consumption path. Owing to this property, Lucas and Stokey (1984) and Epstein (1987) give an example that consumers with various discounting save. But they say little about how saving level is determined. Advancing from their studies, the present paper shows that more patient agent consumes and saves more in the stationary equilibrium.

Keywords, Recursive Utility; Co-monotonic Allocation

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