**Readme:**

*Instructions for the MATLAB codes of*

**“Targeted transfers and fiscal response to the great recession”**

**Hyunseung Oh and Ricardo Reis (2011)**

**1. IncompleteMarkets**

* **TransfersMain.m**: main script file to compute the steady state and transitional dynamics of the incomplete markets model. Various experiments can be implemented by changing the options in   
  %----------- User Setup -------------%  
  Options  
  ……  
  %----------------------------------------%
* **VFksh01.m**: function that returns the maximum distance of (Xold,rold) and (Xnew,rnew) to compute the steady state of the incomplete markets model using discretization method.
* **VFksh02.m**: function that returns the maximum distance of (Xold,rold) and (Xnew,rnew) to compute the steady state of the incomplete markets model using piecewise linear interpolation method.
* **nvaluef.m**: negative bellman equation
* **Plot\_SS.m**: script file to plot the results for the steady state.
* **Plot\_TD.m**: script file to plot the results for the transition dynamics.

**2. Robustness**

* **TransfersMainLucas.m**: main script file to compute the steady state and transitional dynamics of the incomplete markets model, with fixed capital and low beta. Otherwise, same as TransfersMain.m.
* **VFksh01Lucas.m**: function that returns the maximum distance of (Xold,rold) and (Xnew,rnew) to compute the steady state of the incomplete markets model with fixed capital using discretization method.
* **FixedCapitalAlgorithm.pdf**: sketches the algorithm for the fixed capital approach.

**3. Supplementary Functions**

* **utilf.m**: compute the CRRA or CARA utility function
* **markovappr.m**: compute the AR(1) discretization of Tauchen (1986)
* **tauchenhussey.m**: written by Martin Floden to compute the AR(1) discretization of Tauchen and Hussey (1991)
* **gss1.m**: golden section search
* **limitdist1.m**: compute the stationary distribution given a markov probability matrix.
* **pdf\_ke.m**: compute the stationary density (distribution) of capital and income given the capital decision function and markov probability matrix.
* **qinterp1.m**: fast linear interpolation. (basically similar to interp1q.m)