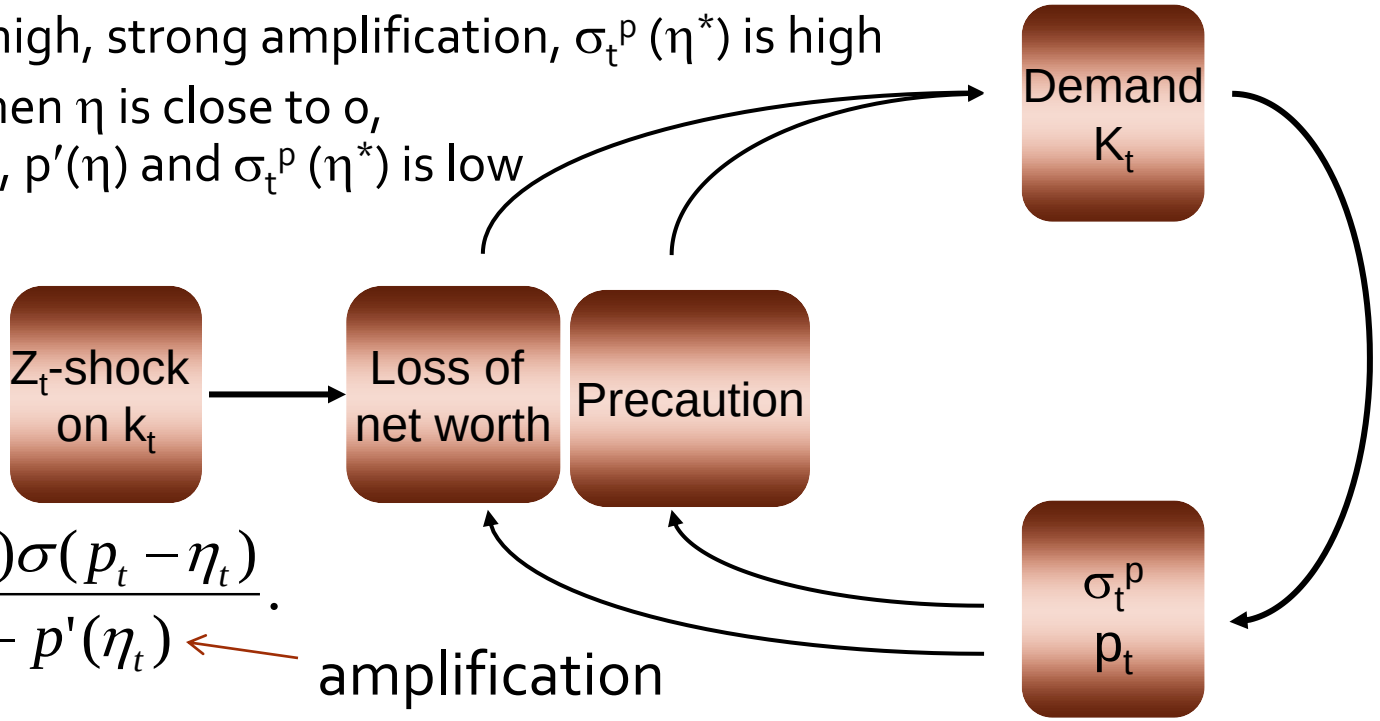
Dynamics near and away from steady-state

- **Steady state:** experts unconstrained

Note difference to BGG/KM

  - Bad shock leads to lower payout rather than lower capital demand
  - $p'(\eta^*) = 0$, $\sigma_t^p(\eta^*) = 0$
- **Below steady state:** experts constrained
  - Negative shock leads to lower demand
  - $p'(\eta^*)$ is high, strong amplification, $\sigma_t^p(\eta^*)$ is high
  - … but when η is close to 0, $p \approx \underline{p}(\eta_t)$, $p'(\eta)$ and $\sigma_t^p(\eta^*)$ is low



$$\sigma_t^p = \frac{p'(\eta_t)\sigma(p_t - \eta_t)}{1 - p'(\eta_t)}.$$

← amplification