

1. An individual is characterized by $\beta\delta$ -preferences where $\beta = 0.7$ and $\delta = 0.9$ and his instantaneous utility function is $u(x) = \ln(10 + x)$ where x is the spending. At $t = 1$ Paul receives an endowment $W = 10$ to spend in $t = 2, t = 3$ and $t = 4$. (Assume $R=1$)
 - a) Compute the optimal plan of spending from the perspective of $t = 1$.
 - b) Compute the optimal plan of spending from the perspective of $t = 2$.
 - c) Assume the agent forecasts correctly his future behaviour (i.e. he is sophisticated). Compute the optimal share of W invested in illiquid asset in $t = 1$

2. Solve all problems and examples in the slides of "doing it now or later"