

Households maximize (10) subject to (11)–(14). They take as given equilibrium paths for the real wage $\{w_t\}_{t \geq 0}$, the real return to liquid assets $\{r_t^b\}_{t \geq 0}$, the real return to illiquid assets $\{r_t^a\}_{t \geq 0}$, and taxes and transfers $\{\tau_t, T_t\}_{t \geq 0}$. As we explain below,