

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,