

Discussion of Behavioral Sticky Prices

by Rebelo, Santana and Teles

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A simple beautiful idea

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- ▶ As a result, **firms** more likely to **change prices with inflation** (rockets) rather than deflation (feathers).

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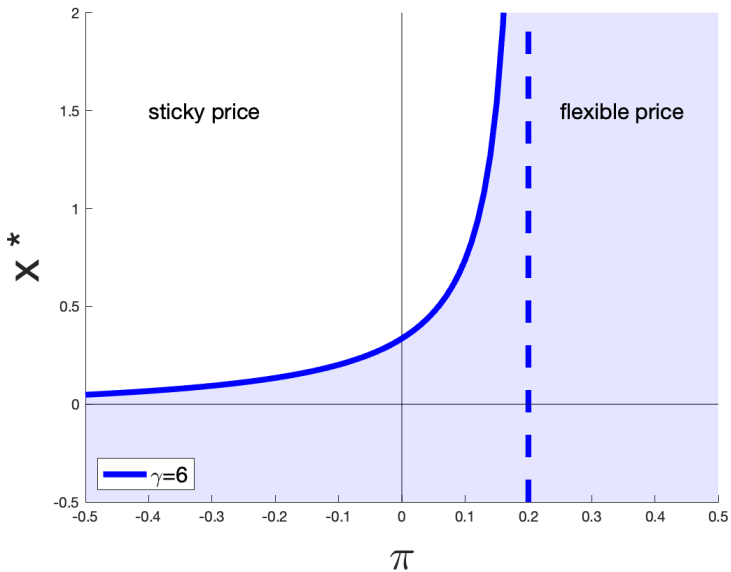
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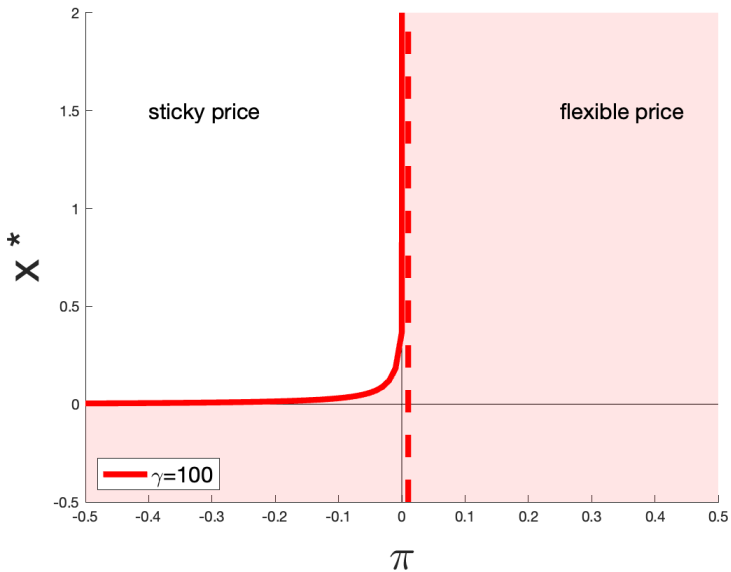
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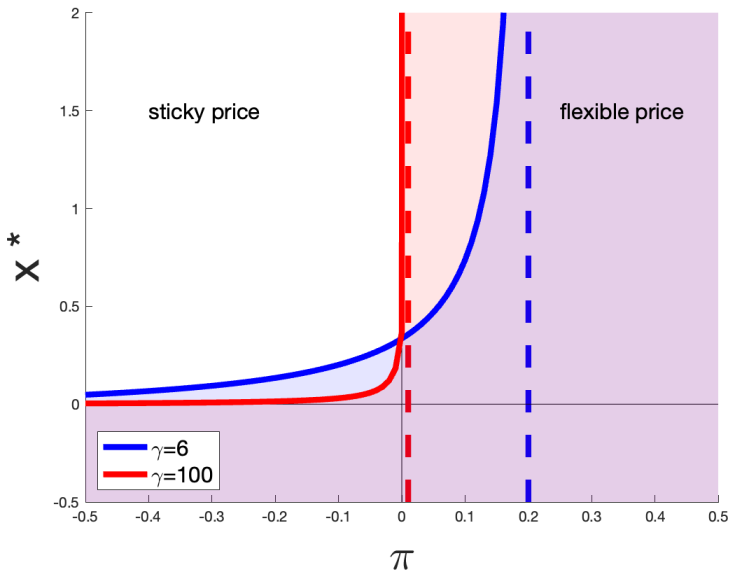
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- ▶ Denote $x^*(\pi)$ such that $p_{i,t} = \mu$ if and only if $x_{i,t} < x^*(\pi)$.







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3 Optimal Policy (in the limit of perfect competition):

- ▶ high cognitive costs \rightarrow price stability;
- ▶ low cognitive costs \rightarrow inflation better than deflation;

A lot to like

Price-Demand duality.

- ▶ Brilliant idea: positive profits at any demand level, but not at any price.
- ▶ Prices are used strategically by firms as prices move households' beliefs (more to come).
- ▶ Asymmetric theory of price stickiness: does the data like it?
 - ▶ Ex. Aggregate markup more strongly countercyclical in deflation rather than in inflation states.
 - ▶ Ex. Market concentration makes rockets and feathers phenomenon less pronounced.

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 - ▶ so, too much cognitive costs from the social point of view

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 - ▶ Should households reason at the basket level?
- ▶ How the firm may be informed of these mistakes?
 - ▶ I remain uncertain about the timing in a dynamic setting.

Conclusion

A beautiful model of **behavioural demand** and **optimal pricing**.