

Price Rigidities

An attempt at a new angle

November 16, 2021

David L. Osten¹

Abstract

This paper contributes an additional channel for nominal price rigidities which has so far been neglected in the literature. It is well known that search cost on the consumer side can lead to market power for firms, but this phenomenon has not yet been linked to the existence of nominal price rigidities. This paper aims to fill this gap with a basic profit maximization of firms leading to nominal rigidities.

Keywords Price Rigidity, Inflation Expectations, Market Power, Search Cost

The paper benefitted substantially from helpful comments by Prof. L. Ball and Prof. C. Carroll of the Department of Economics of the Johns Hopkins University. Further, it is appropriate to thank Prof. O. Jeanne for an excellent introduction into the broader topic of price rigidities.

¹Contact: dosten1@jhu.edu, Department of Economics, 590 Wyman Hall, Johns Hopkins University, Baltimore, MD 21218.

Table 1 Microeconomic Model Calibration

Calibrated Parameters			
Test1	Parameter	Value	Source
Test2	Γ	1.03	PSID: Carroll (1992)
Test3	R	1.04	Conventional
Test4	β	0.96	Conventional
Test5	ρ	2	Conventional
Test6	\wp	0.005	PSID: Carroll (1992)
Test7	σ_ψ	0.1	PSID: Carroll (1992)
Test8	σ_θ	0.1	PSID: Carroll (1992)

1 The Problem

1.1 Setup

$$\bar{k} = \left[\frac{(1 - \epsilon)\beta^{1/(1-\epsilon)}}{\Xi(1 + \beta)} \right] \tag{1}$$

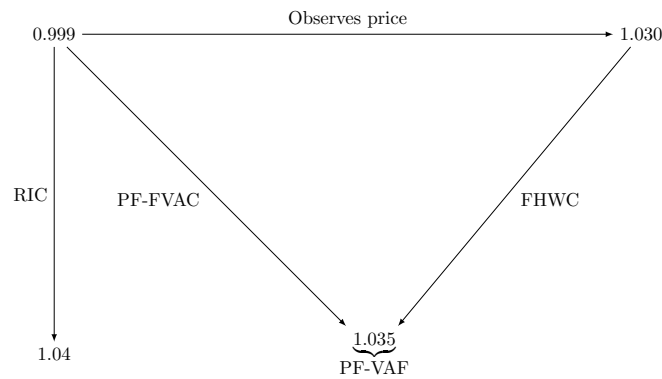


Figure 1 PF Unconstrained Model: Relation of GIC, FHW, RIC, and PF-FVAC

A first visualization of the model's logic

Just a citation test: ? Friedman (1957)

References