User Guide 02 - State-Dependent Pricing

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Abstract

These notes presents an step-by-step on Reiters Projection+Perturbation approach to solve a menu-cost model with heterogeneous firms model with aggregate uncertainty. The method seemed to be implemented in this context first by Costain and Nakov (2011).

Carroll (2006)

REFERENCES

Christopher D. Carroll. The method of endogenous gridpoints for solving dynamic stochastic optimization problems. *Economics Letters*, 91(3):312–320, June 2006.

James Costain and Anton Nakov. Distributional dynamics under smoothly state-dependent pricing. *Journal of Monetary Economics*, 58(6):646–665, 2011.