

Macroeconomics 2 Presentation

Article review :

Gabaix, Xavier. 2020. "A Behavioral New Keynesian Model." American Economic Review, 110(8): 2271-2327

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Sciences Po

Outline

1. Contextualization
2. Baseline model of the paper
3. Consequences
4. Implications for monetary policy
5. Implications for fiscal policy
6. Behavioral Enrichments of the Model
7. Discussion of the Behavioral Assumptions
8. Conclusion

Contextualization

1. Contextualization

1.1 Goal of the paper

1.2 Literature of the topic

Goal of the paper

Content of the Goal of the paper.

Content of the the Literature.

Baseline model of the paper

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9. Limits and Critics

2. Baseline model of the paper

2.1 Household's Problem

2.2 Firms

2.3 Solution

2.4 Synthesis Of A Behavioral New Keynesian Model

2.5 Calibration

Household's Problem

$$U = \mathbb{E} \left[\sum_{t=0}^{\infty} \beta^t u(c_t, N_t) \right] \quad (1)$$

With

$$u(c_t, N_t) = \frac{c^{1-\gamma} - 1}{1 - \gamma} - \frac{N^{1+\phi}}{1 + \phi}$$

So we have the following objective function of the household :

$$U = \mathbb{E} \left[\sum_{t=0}^{\infty} \beta^t \left(\frac{c^{1-\gamma} - 1}{1 - \gamma} - \frac{N^{1+\phi}}{1 + \phi} \right) \right]$$

Household's Problem

$$k_{t+1} = (1 + r_t)(k_t - c_t + y_t) \quad (2)$$

Consequences

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3. Consequences

Implications for monetary policy

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4. Implications for monetary policy

Implications for fiscal policy

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5. Implications for fiscal policy

Behavioral Enrichments of the Model

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6. Behavioral Enrichments of the Model

6.1 Term Structure of Consumer Attention

6.2 Flattening of the Phillips Curve via Imperfect Firm Attention

6.3 Nonconstant Trend Inflation and Neo- Fisherian Paradoxes

$$\begin{aligned} k_{t+1} &= \mathbf{G}^{k,BR}(c_t, N_t, k_t, \mathbf{X}_t) \\ &:= (1 + \bar{r} + \hat{r}^{BR}(\mathbf{X}_t))(k_t + \bar{y} + \hat{y}^{BR}(N_t, \mathbf{X}_t) - c_t) \end{aligned} \quad (49)$$

$$\begin{cases} \hat{r}^{BR} = m_r \hat{r}(\mathbf{X}_t) \\ \hat{y}^{BR}(N_t, \mathbf{X}_t) = m_y \hat{y}(\mathbf{X}_t) + \omega(\mathbf{X}_t)(N_t - N_t \mathbf{X}_t) \end{cases} \quad (50)$$

$$\begin{cases} \mathbb{E}_t^{BR} [\hat{r}^{BR}(\mathbf{X}_{t+k})] = m_r \bar{m}^k \mathbb{E}_t [\hat{r}(\mathbf{X}_{t+k})] \\ \mathbb{E}_t^{BR} [\hat{y}^{BR}(\mathbf{X}_{t+k})] = m_r \bar{m}^k \mathbb{E}_t [\hat{y}(\mathbf{X}_{t+k})] \end{cases} \quad (51)$$

Discussion of the Behavioral Assumptions

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7. Discussion of the Behavioral Assumptions

- Theoretical Microfoundation
- Lucas Critique
- Long-Run Learning
- Parsimony and New Degrees of Freedom
- Reasonable Variants

Conclusion

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Limits and Critics

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