

Rationally Inattentive Seller: The Geographic Dispersion of U.S. Retail Chains and its Aggregate Implications

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Abstract

This paper investigates how a firm's geographic dispersion influences its expectations formation within a general equilibrium model that incorporates rational inattention and multi-region firms. In the model, firms collect information on both aggregate and region-specific shocks. When decision-making is centralized at the headquarters level, firms operating across multiple regions allocate their information capacity between a signal about overall demand and signals about regional demand variations. If the firm operates in enough regions, it disregards signals about regional demand differences. In a model calibrated to the U.S., centralized decision-making reduces the real effects of monetary shocks by 84% compared to a decentralized decision structure at the regional level. Additionally, region-specific shocks spill over to other regions through the firm's network of regions.

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