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Dynamic Rational Inattention and the Phillips Curve

Take as granted that private sector ignoring available information is a costly info acquisition / rational inattention story.
RI generate inertia, persistence, hump-shape responses -> hard to solve

Methodological contribution: method to solve dynamic ration inattention problems, in a new software package
Application: flattening of the Phillips curve —> slope is endogenous to Monpol (not new insight), amount of attention shows up in the slope. More hawkish MP -> PC flatter , when MP more dovish -> PC flat in SR, steeper in the LR

—> inflation expectations are more anchored when MP hawkish?

Flat PC: I think thats no relationship between inflation and unemployment
Hawkish := higher Taylor rule coefficient on inflation

Leads to a time-dependent Kalman gain b/c firms' problem reduces to choosing a Kalman gain
KG is higher when

variance of shocks is higher —> acquire more info

Slope of PC is increasing function of KG —> the more info you acquire, the steeper the slope. When psi_pi goes up, that decreases economic volatility so KG goes down —> flatter PC.

More anchored expectations if they do not respond (too/ or as much) to slack in the economy.

Angeletos discussion: today's posterior becomes tomorrow's prior —> a precautionary motif of info choice
What is KG in the data? Coibion and Goro 2015 is actually a measure of this: this paper predicts that KG(CG) increases, their KG decreased post Volcker (i.e. predictability of FE) -> in data you find the opposite!
If you redo the data

exercise with a PC method, you do get it right.
Angeletos-Huo-Sastry: point: initial under, then overreaction —> that means that first you flatten, then steepen the PC

Response from Hassan: the effect of MP on slope of PC is completely overturned with different info cost function!

Woodford: you don't

have expectations about long run trends, which is the what we think has changed from pre-volcker