Homework 2

Matthew Aaron Looney

2/11/2018

Problem 1

a. In the Lucas Imperfect Information model, producers do not observe the aggregate price level perfectly. How does this model set up a signal extraction problem and how do firms solve it?

b. What is the Lucas supply curve and what are its implications? How is it different from the expectations-augmented Phillips curve?

c. How do the implications of this model tie into the famous Lucas critique?