

SELECTIVE INATTENTION TO INTEREST RATES

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NBER Monetary Economics Fall Meeting

October 2025

MOTIVATION

- Households' macro expectations suggest they are very uninformed on **average**
 - Level of expectations is often systematically biased Weber et al. 22
 - Substantial dispersion in expectations across people Mankiw et al. 04
 - Errors in their expectations are predictable ex-ante Bordalo et al. 20
- Motivated adding information frictions to quantitative macro models Auclert et al. 20
 - ⇒ **Average** expectation is slow-moving and under-reacts Coibion-Gorodnichenko 12, 15
 - ⇒ Aggregate responses to shocks are “hump-shaped”, like in data Christiano et al. 05

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- Motivated adding information frictions to quantitative macro models Auclert et al. 20
- Introspection: macro expectations much more important for “**big**” decisions
 - These **big** decisions also tend to occur less frequently
 - Example: interest rates important when **buying a house**, but less so for groceries

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- **Question:** Do HHs **select** into paying attention based on **types** of decisions?

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- Motivated adding information frictions to quantitative macro models Auclert et al. 20
- Introspection: macro expectations much more important for "**big**" decisions
- **Question:** Do HHs **select** into paying attention based on **types** of decisions?
- **If yes**, how do the macro implications of this **selection** differ?
 - Belief heterogeneity \Rightarrow **average** may not be the relevant object Miller 77, Afrouzi et al. 24

Is there selective inattention to interest rates based on **durables purchases?**

“decision-making” (DM)

- ① Use existing surveys to study how interest rate expectations differ based on DM
 - Benefit: high-quality data on expectations
 - Cost: imprecise identification of **DM status** + hard to isolate attention

Is there selective inattention to interest rates based on **durables purchases?**

“decision-making” (DM)

- ① Use existing surveys to study how interest rate expectations differ based on DM
- ② Conduct a new survey to identify how macro attention changes based on DM
 - Benefit: better identify **DM status** + elicit information acquisition directly
 - Cost: hard to study accuracy in expectations given one cross-section

THIS PAPER

Is there selective inattention to interest rates based on durables purchases? ✓

How does **selective inattention** affect **aggregate responses** to interest rates?

- ① Use existing surveys to study how interest rate expectations differ based on DM
- ② Conduct a new survey to identify how macro attention changes based on DM

- ③ Develop incomplete markets model with $\overbrace{\text{durables}}^{\text{DM in model}} + \text{rational inattention to rates}$
 - Use patterns in IA from survey to discipline information cost parameter
 - Compare **model IRFs** to level and volatility of rates with $\overbrace{\text{exogenous inattention}}^{\text{DM} \perp \text{beliefs} \Rightarrow \text{no selection}}$

OUTLINE

- 1 Existing Surveys: Expectations Accuracy around Decision-Making
- 2 New Survey: Information Acquisition around Decision-Making
- 3 Incomplete Markets Model with Selective Inattention
- 4 Interest Rate Passthrough with Selective Inattention
- 5 Conclusion

OUTLINE

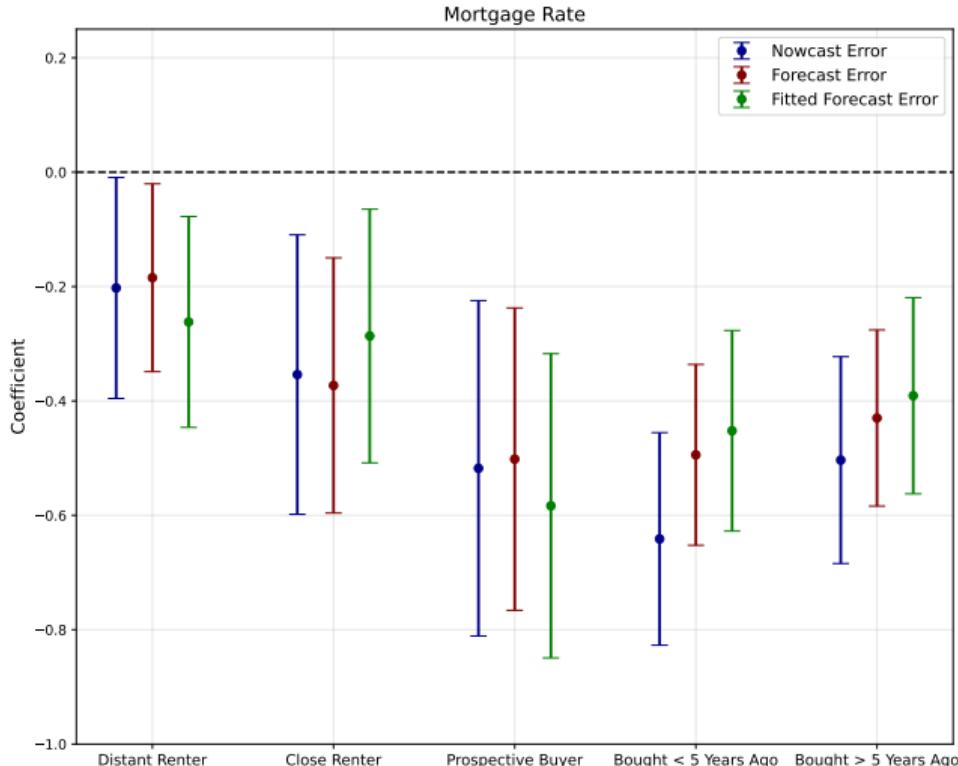
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SURVEY 1/2: NY FED SURVEY OF CONSUMER EXPECTATIONS

- **Sample:** repeated cross-section of $\sim 8K$ respondents in 2014-2023
- Variables of interest:
 - ① **Nowcasts** of current average 30-year fixed mortgage rate
 - ② **Forecasts** of one-year ahead mortgage rate and inflation
 - ③ **DM status** based on distance from past or (intended) future home purchase
- Construct errors using 30-year fixed rate in Freddie Mac PMMS and CPI
- Run the following regression:

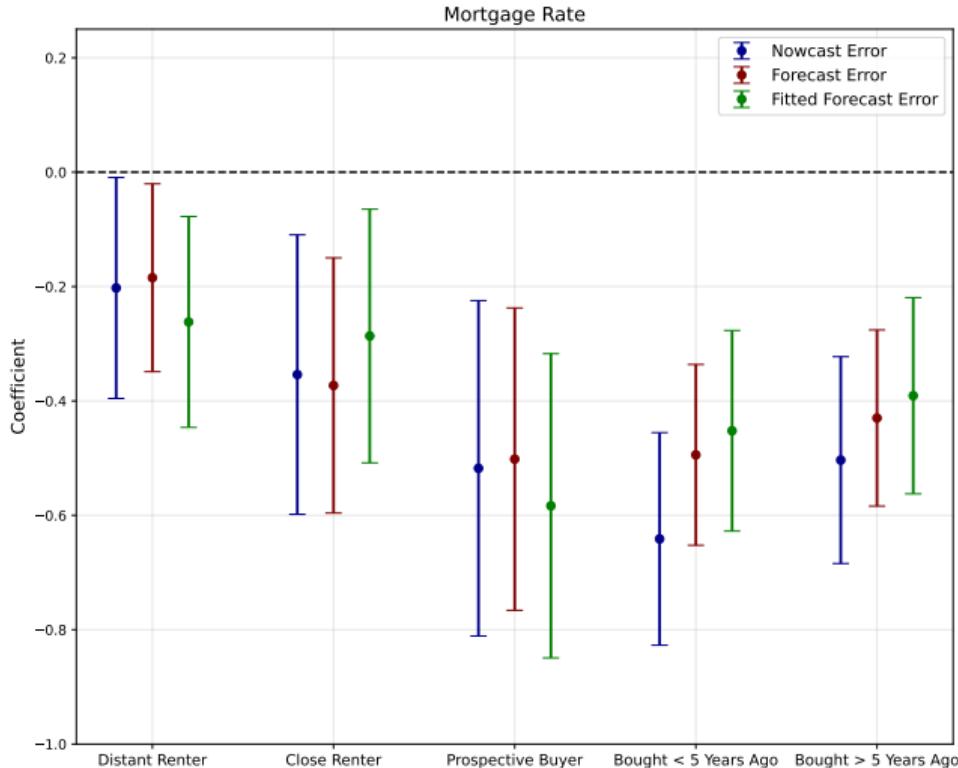
$$\log |\text{Error}_{it}| = \sum_s \beta_s \cdot \mathbf{1}(\text{DM Status}_{it} = s) + \text{Controls}_{it} + \delta_t + \epsilon_{it}$$

DECISION-MAKERS HAVE MORE ACCURATE BELIEFS



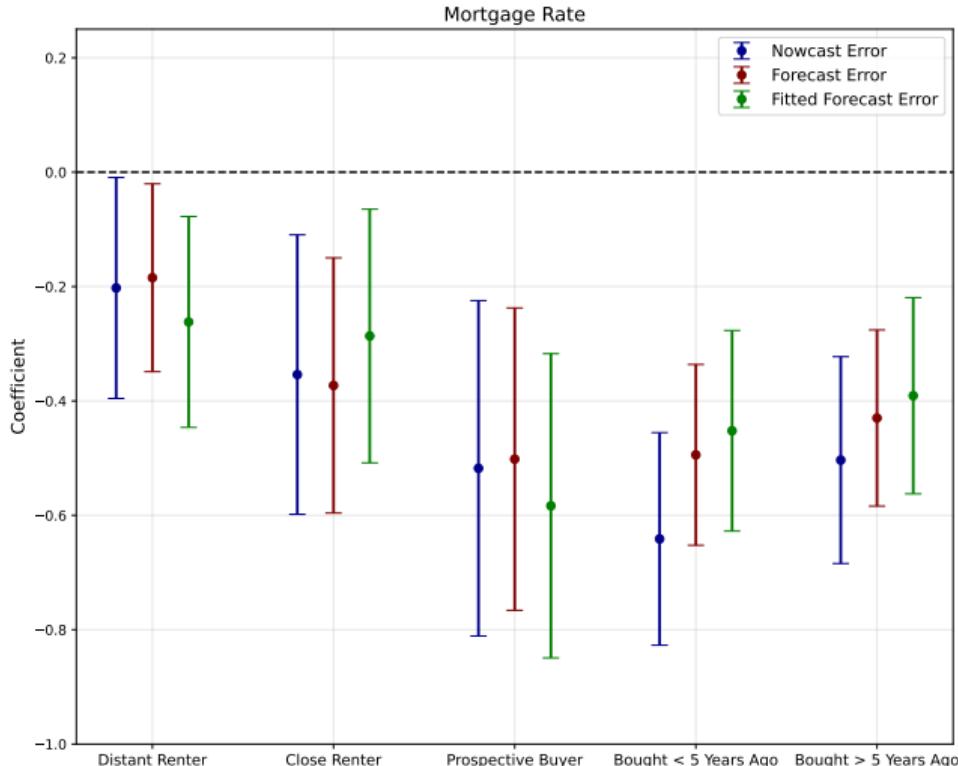
Errors of prospective buyers \approx **50% lower** than those with no purchase plan

DECISION-MAKERS HAVE MORE ACCURATE BELIEFS



≈ 2x difference between individuals in top and bottom terciles of income or education

DECISION-MAKERS HAVE MORE ACCURATE BELIEFS



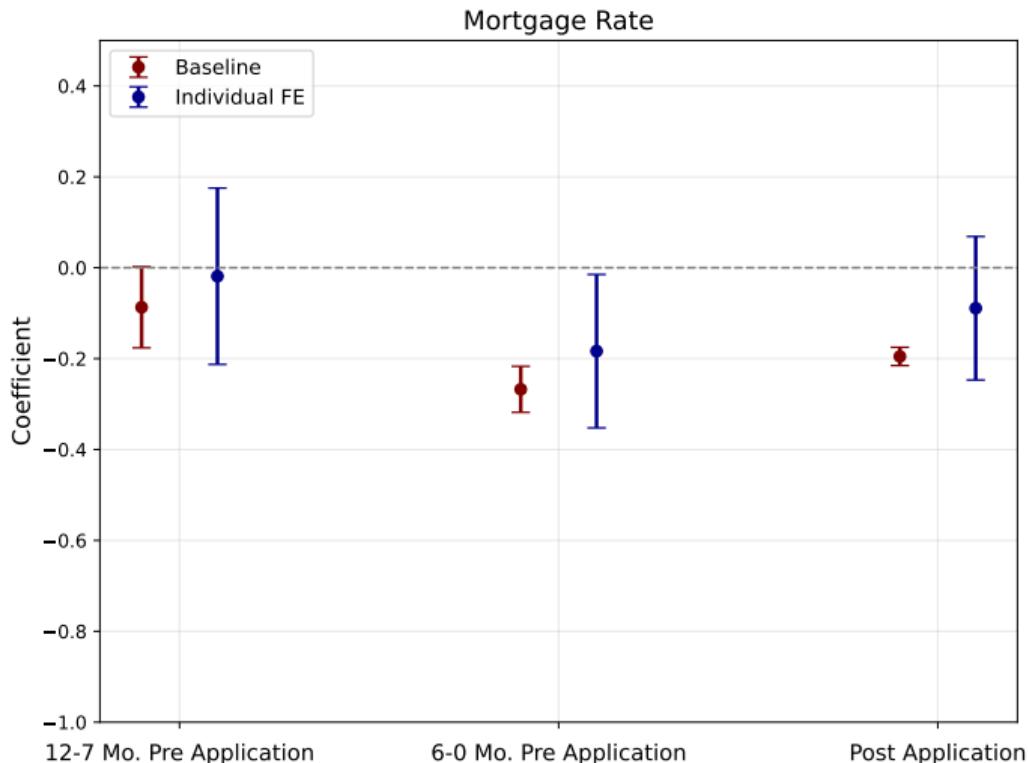
Almost all of forecasting gain comes from nowcasting improvement

SURVEY 2/2: ECB SURVEY OF CONSUMER EXPECTATIONS

- **Sample:** **panel** of $\sim 130K$ individuals in 2020-2024 from six largest countries
 - Restriction: only include individuals who rented at some point in survey
 - Note: quarterly frequency \Rightarrow short panel
- Variables of interest:
 - ① **Forecasts** of one-year ahead mortgage rates, inflation, GDP, and unemployment
 - ② **DM status** based on distance from mortgage application
- Construct errors based on country-specific realizations
- Run the following regression:

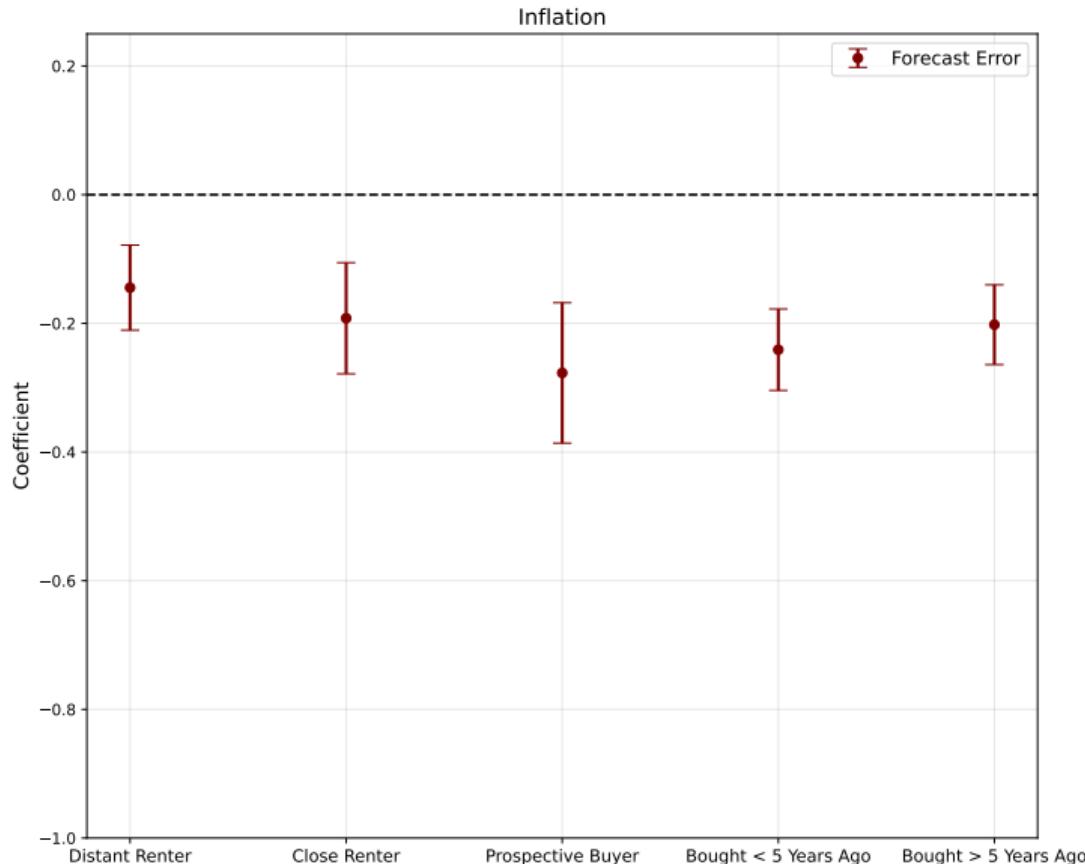
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DECISION-MAKERS HAVE MORE ACCURATE BELIEFS: ECB

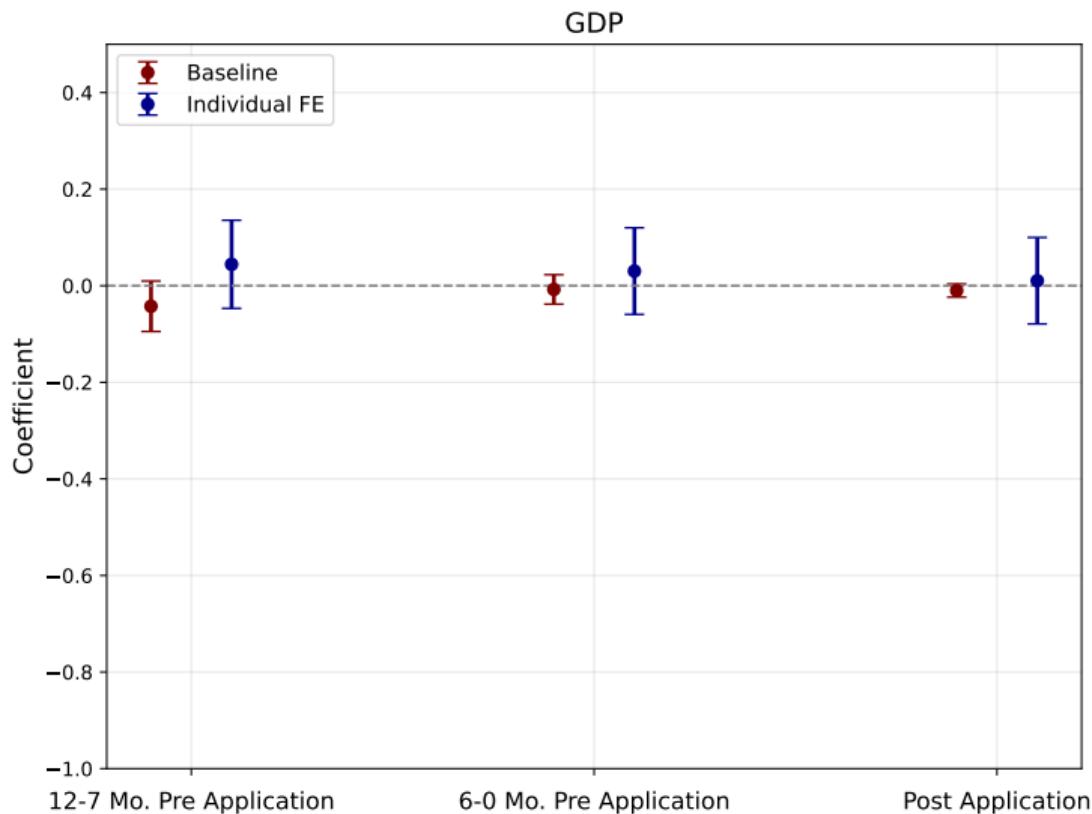


Mortgage rate forecast errors fall by about **20%** pre-application

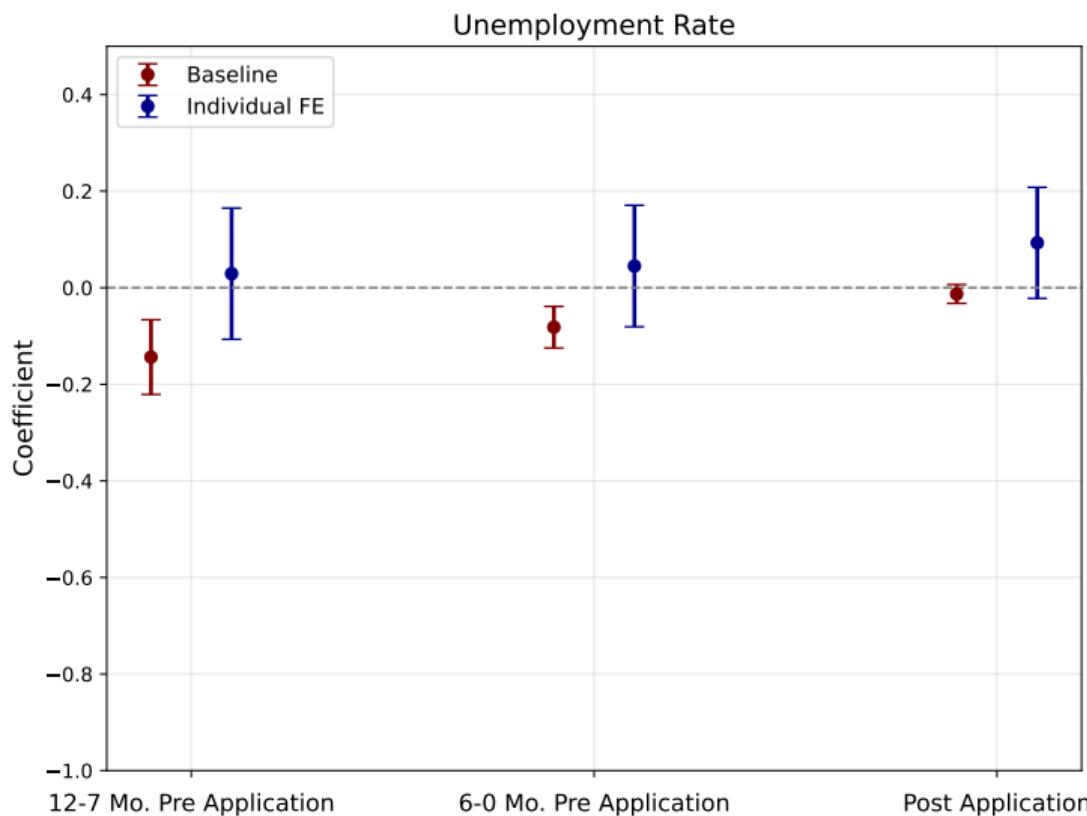
SMALLER DIFFERENCES FOR OTHER VARIABLES: INFLATION IN NY FED



SMALLER DIFFERENCES FOR OTHER VARIABLES: GDP IN ECB



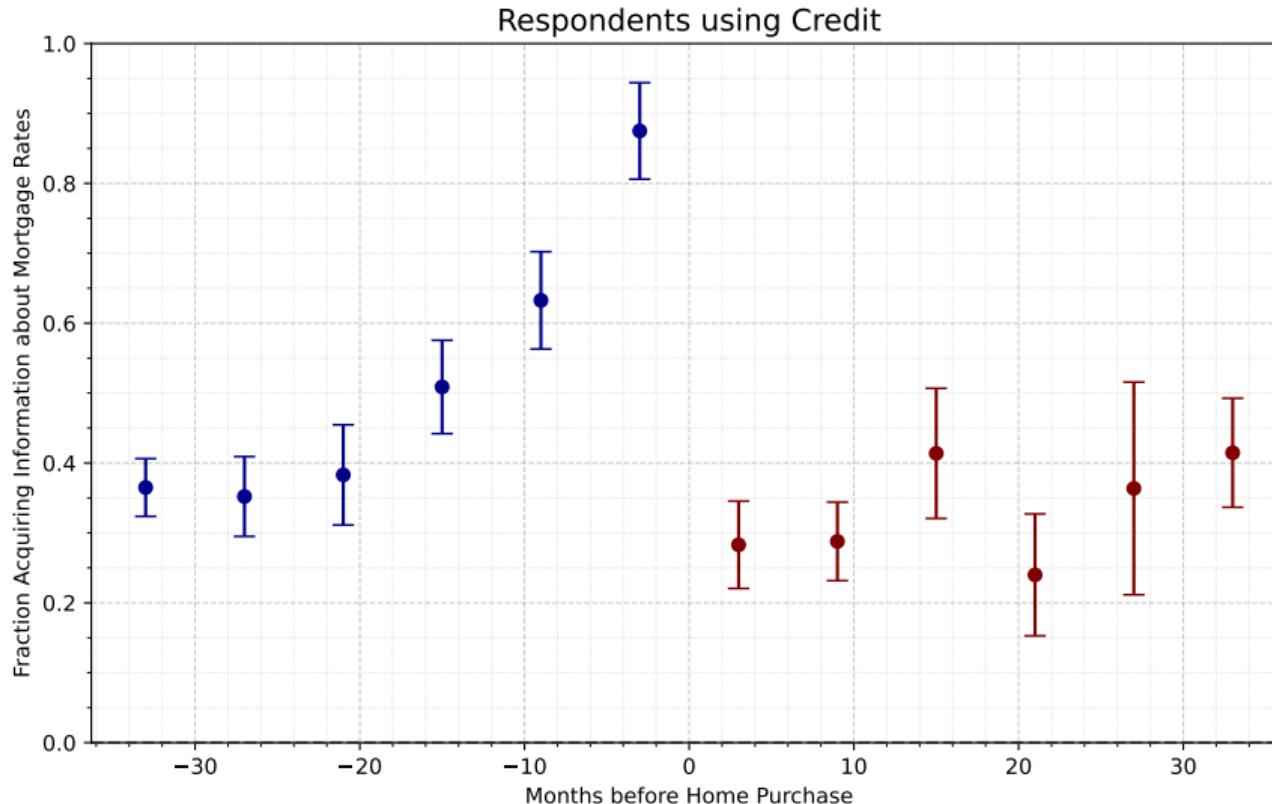
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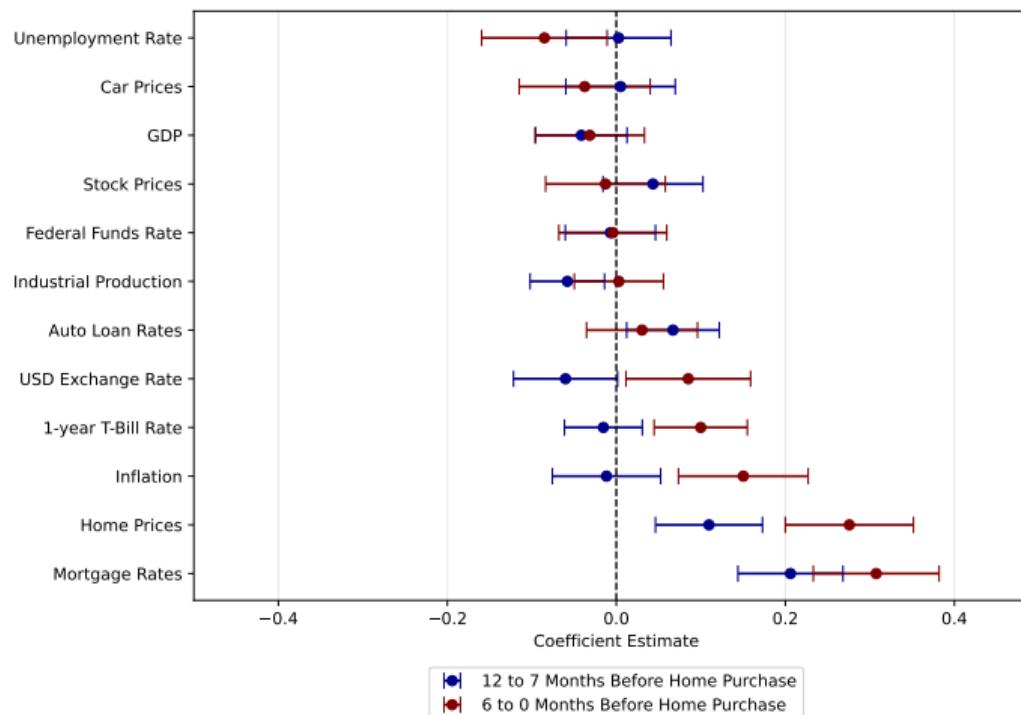
INFORMATION ACQUISITION IS CONCENTRATED PRE-DECISION



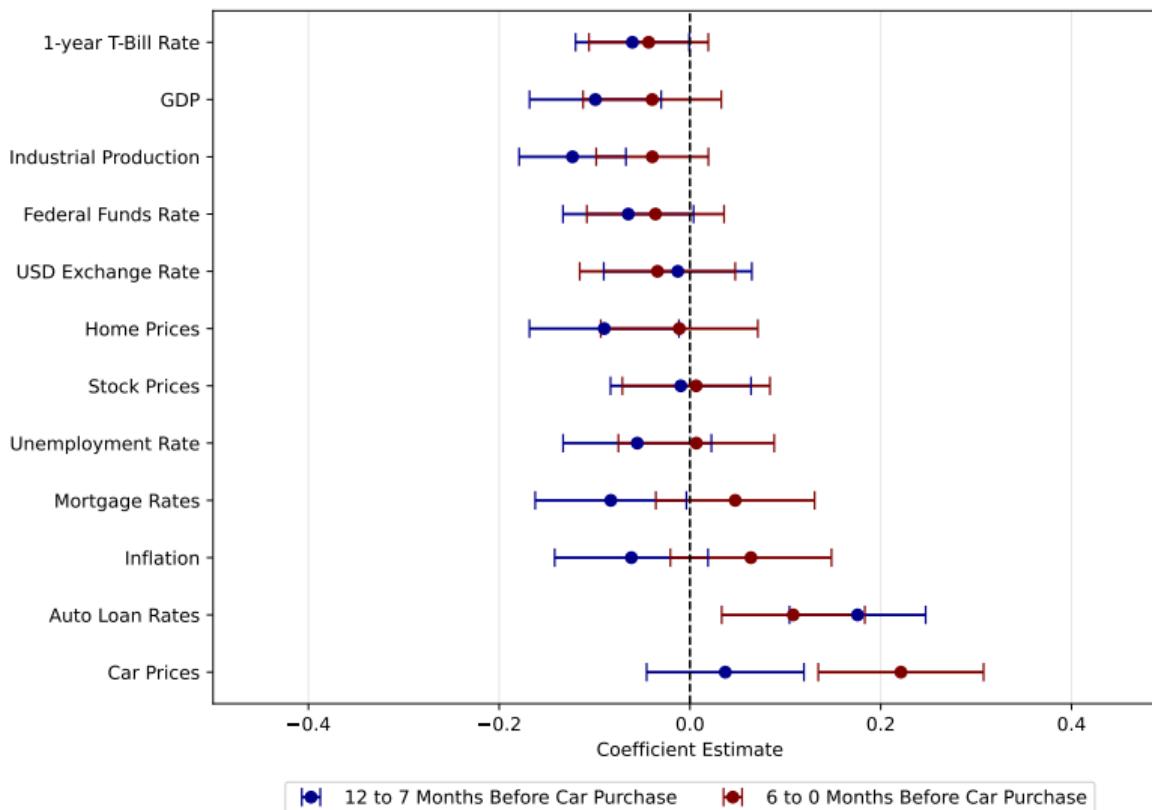
▶ Survey Description

IA IS CONCENTRATED ON DECISION-RELEVANT VARIABLES

$$\text{Info. Acquisition}_i = \sum_d \beta_d \cdot \mathbf{1}(\text{Home Distance}_i = d) + \text{Controls}_i + \text{Other Distances}_i + \epsilon_i$$



PATTERNS IN INFORMATION ACQUISITION ARE DECISION-SPECIFIC



TAKING STOCK: 5 FACTS

- ① Households close to **durables** purchases have more **accurate** macro expectations
- ② Improvement in expectation accuracy is largest for **interest rates**
- ③ Decision-makers' beliefs are less **dispersed** and **uncertain** (see paper)
- ④ Households concentrate **information acquisition** around durables purchases
- ⑤ Households' information acquisition is about **decision-relevant variables**

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Next: what are the macroeconomic implications of this **selective inattention**?

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MODEL SKETCH

Bewley-Huggett-Aiyagari

Partial equilibrium incomplete markets model +durables + dynamic info. acquisition

household block of McKay-Wieland 2021

rational inattention

Partial equilibrium incomplete markets model + durables + dynamic info. acquisition

Decision-Making

Given beliefs, HHs choose non-durables \mathbf{c}
and durables \mathbf{d}' subject to:

- Income risk + collateralized borrowing
- Stochastic interest rate r
- Depreciation of durables stock
- Durables adjustment costs
- Operating + maintenance costs
- Match-quality shocks (e.g. job change)

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Rich model of how beliefs about $r \rightarrow \mathbf{c}, \mathbf{d}'$

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Information Acquisition

HHs know DGP + receive signals of endog. precision about r = rational inattention

- Cost of signals = $\omega \times$ mutual info.
- Benefit of signals = better choice of \mathbf{c}, \mathbf{d}'

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- Interest rate is persistent \Rightarrow prior beliefs are state variables
- Assumption: Gaussian signals about current r

Partial equilibrium incomplete markets model + durables + dynamic info. acquisition

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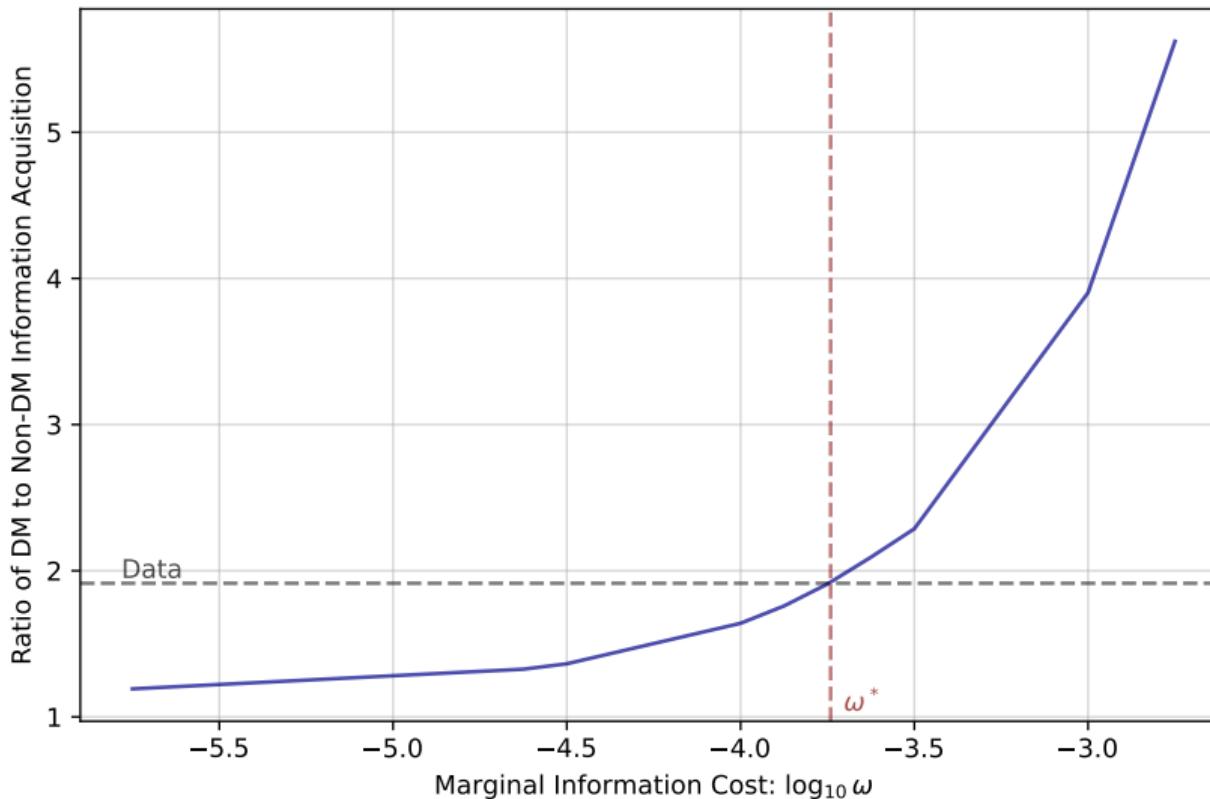
Endogenous beliefs about r that come from dynamic information acquisition

CALIBRATION

Parameter	Description	Value	Source
<i>Internally-Calibrated</i>			
β	Discount factor	0.9829	Asset-to-GDP ratio
ψ	Non-durables exponent	0.627	Durable-to-nondurable consumption ratio
f	Fixed cost	0.11	Adjustment probability
$1 - \xi$	Match-quality shock probability	0.034	Share of adjustments from MQ shocks
ω	Marginal information cost	$10^{-3.741}$	Concentration in information acquisition
<i>Externally-Calibrated</i>			
γ	RRA (and inverse EIS)	2	.
ε	Durables elasticity of substitution	0.5	McKay and Wieland (2021)
$1 - \lambda$	Required downpayment	0.2	McKay and Wieland (2021)
δ	Depreciation rate	0.017	McKay and Wieland (2021)
χ	Maintenance share	0.35	McKay and Wieland (2021)
ν	Operating cost	0.012	McKay and Wieland (2021)
ρ_y	Income persistence	0.977	Flodén and Lindé (2001)
σ_ϵ	Income shock std. dev.	0.058	Flodén and Lindé (2001)
\bar{r}	Real rate mean	0.0143	10-Year Treasury Rate: 1961-2024
ρ	Real rate persistence	0.979	10-Year Treasury Rate: 1961-2024
σ	Real rate shock std. dev.	0.0014	10-Year Treasury Rate: 1961-2024
τ_b	Borrowing spread	0.4156%	30-Year Fixed Mortgage Rate: 1971-2024

▶ Welfare Loss

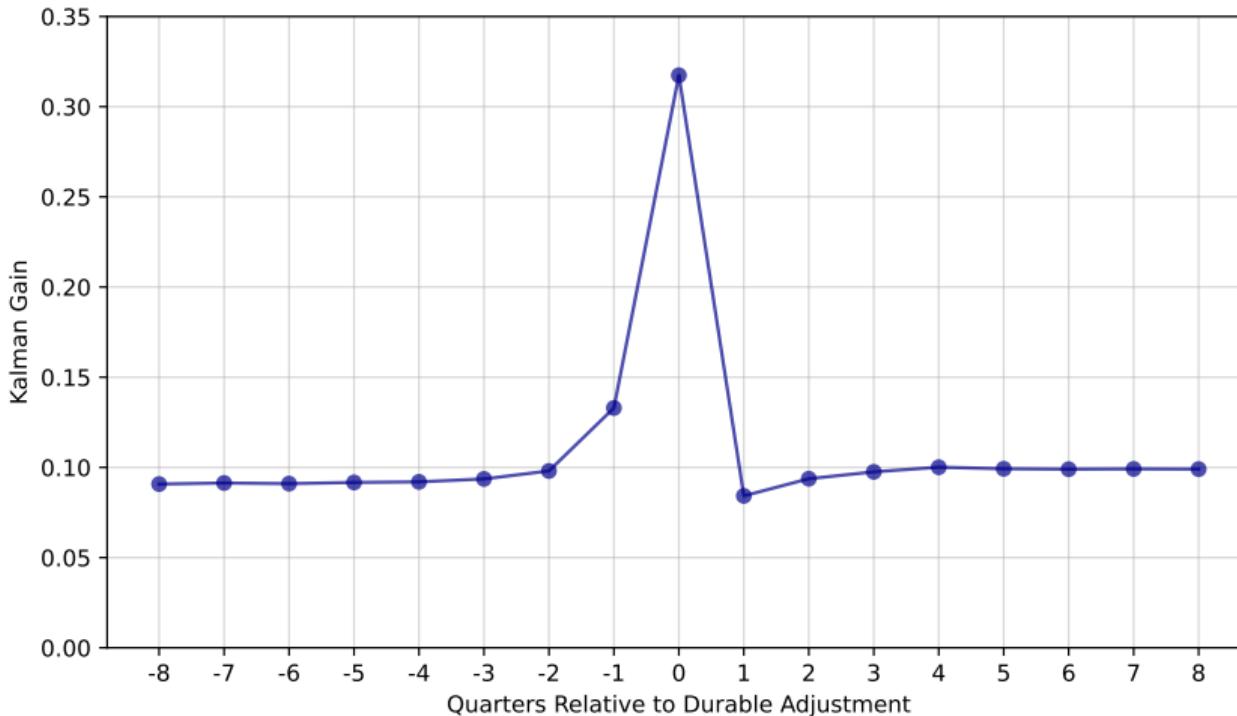
EFFECT OF INFORMATION COST ON INFORMATION ACQUISITION



▶ Summary Stats

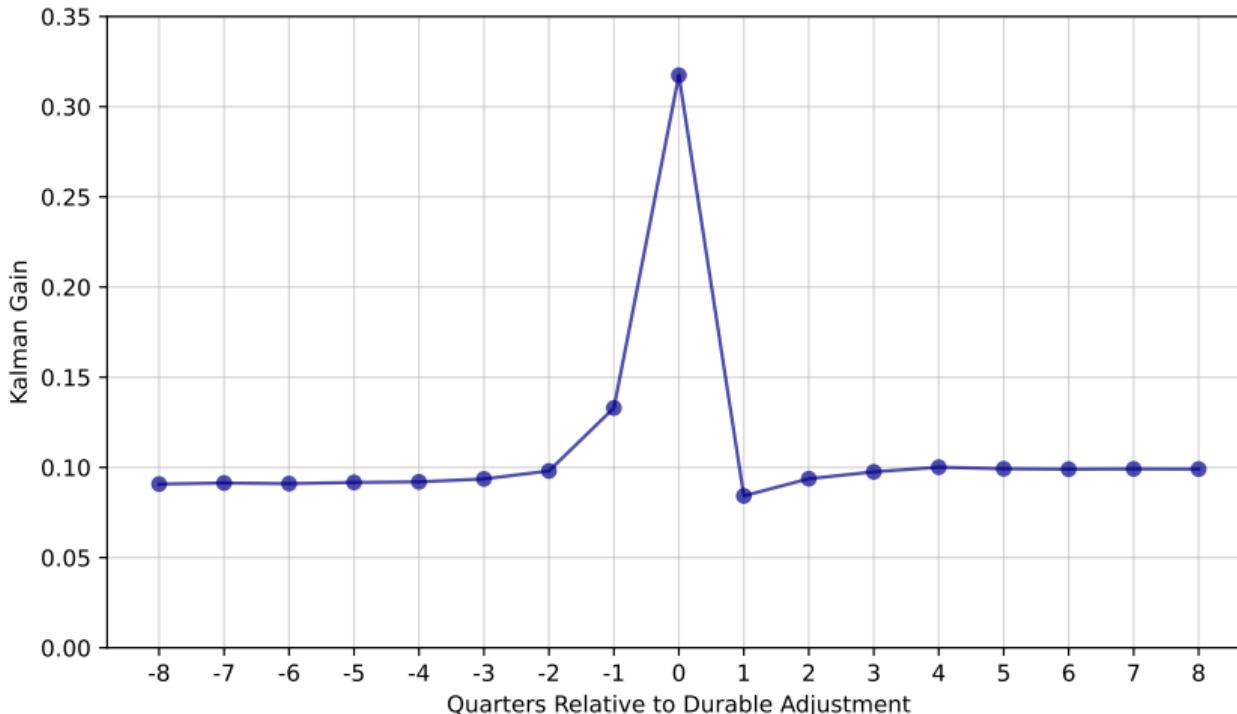
▶ Durables Adjustment Hazard

INFORMATION ACQUISITION IN EVENT-TIME



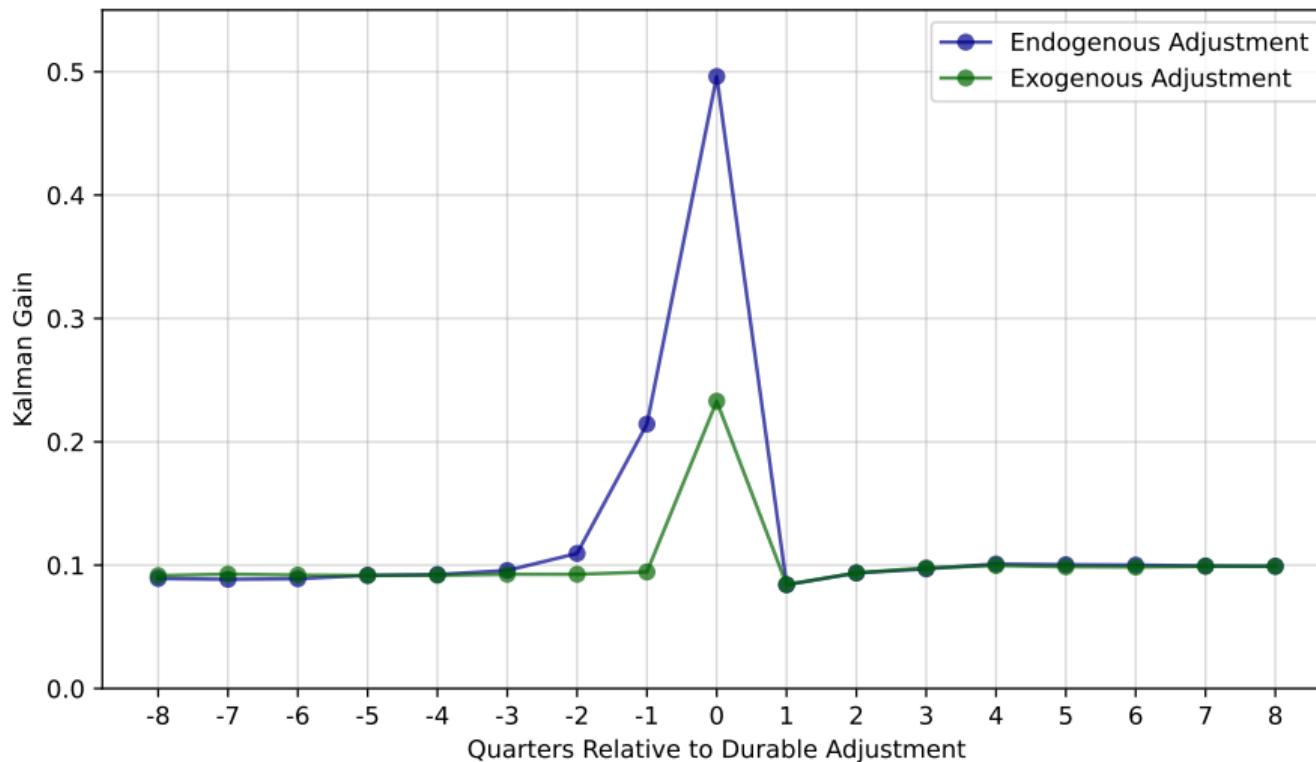
Households acquire information in **all** periods...

INFORMATION ACQUISITION IN EVENT-TIME



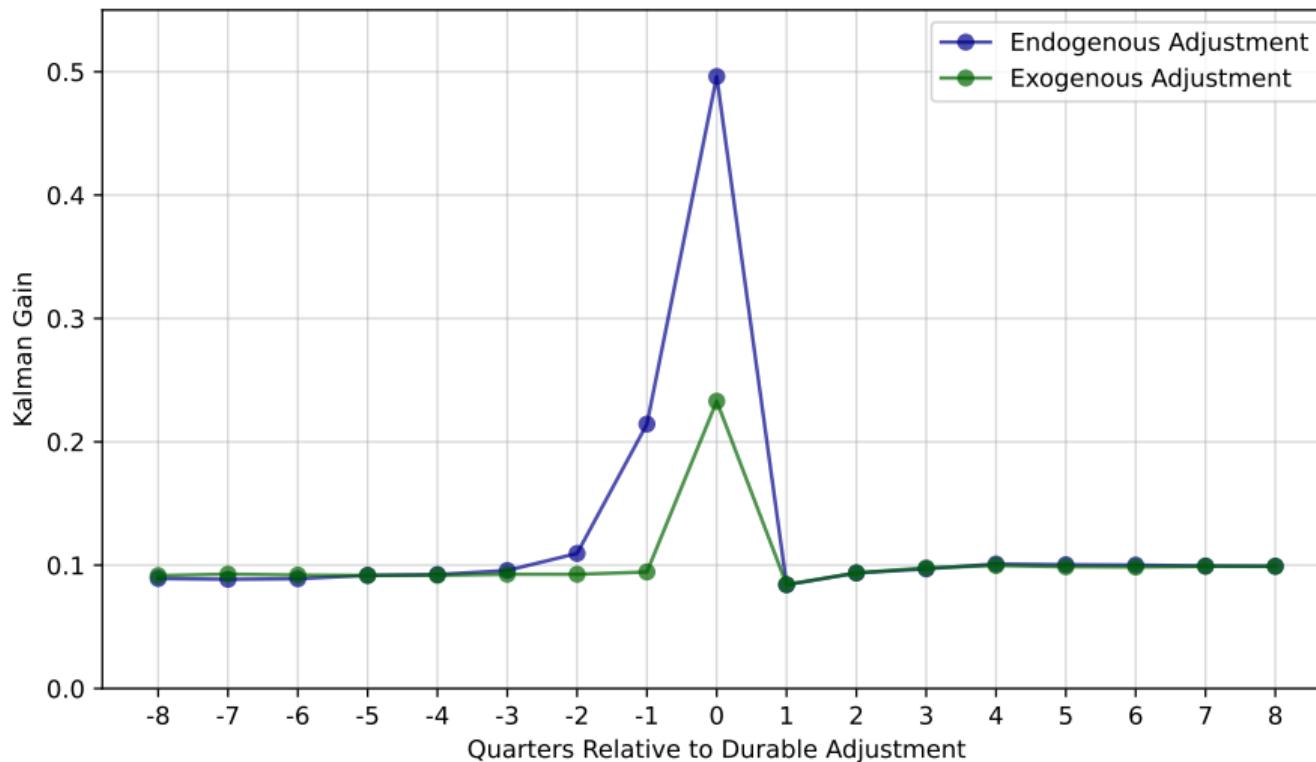
... but this information acquisition is **concentrated** around durables adjustments

ENDOGENOUS ADJUSTMENTS \Rightarrow INFO. ACQUISITION PRE-CHOICE



Information acquisition increases in anticipation of **state-dependent** adjustments...

ENDOGENOUS ADJUSTMENTS \Rightarrow INFO. ACQUISITION PRE-CHOICE



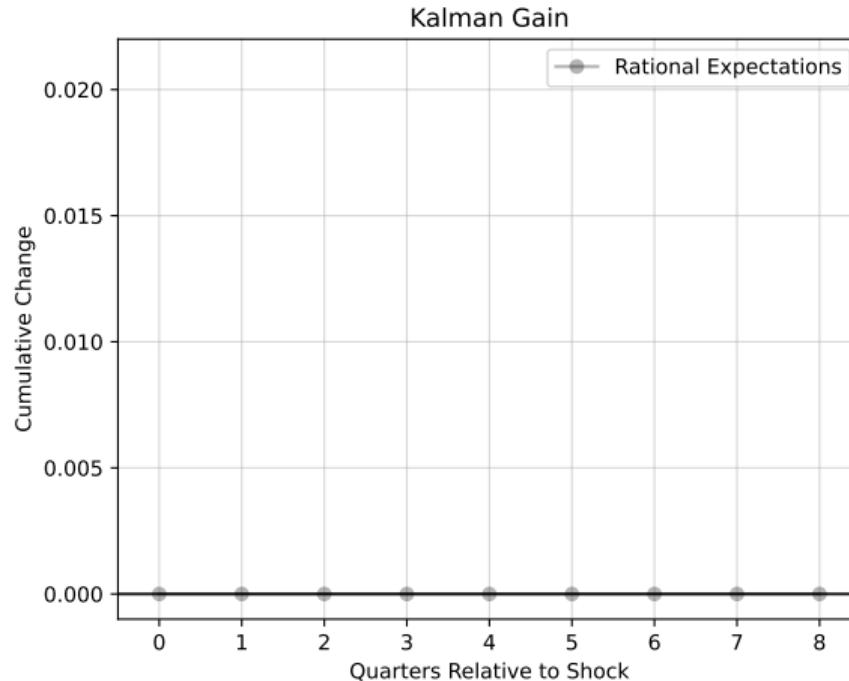
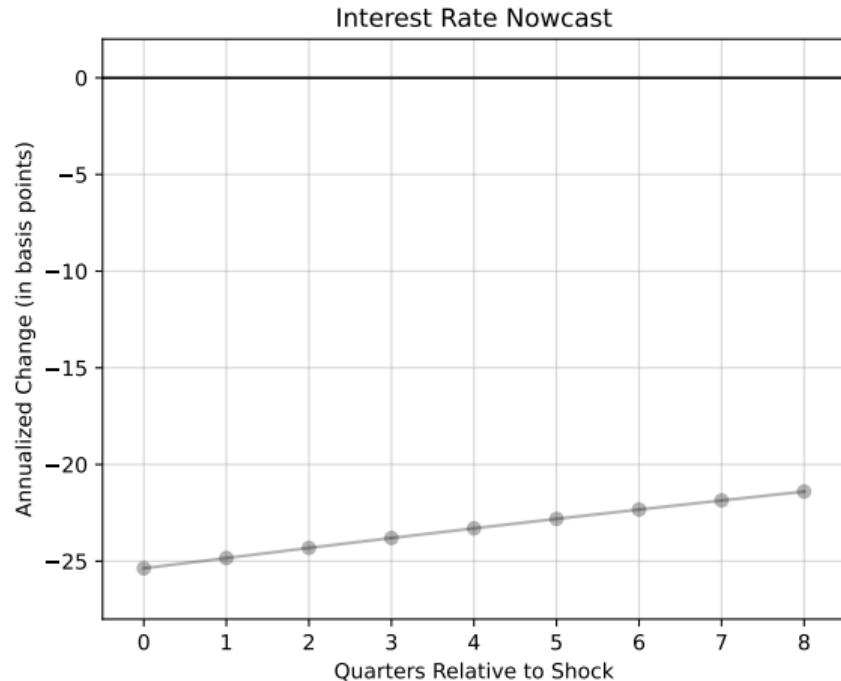
... but is concentrated around the choice for **time-dependent** adjustments Afrouzi et al. 24

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RESPONSES TO INTEREST RATE CUTS

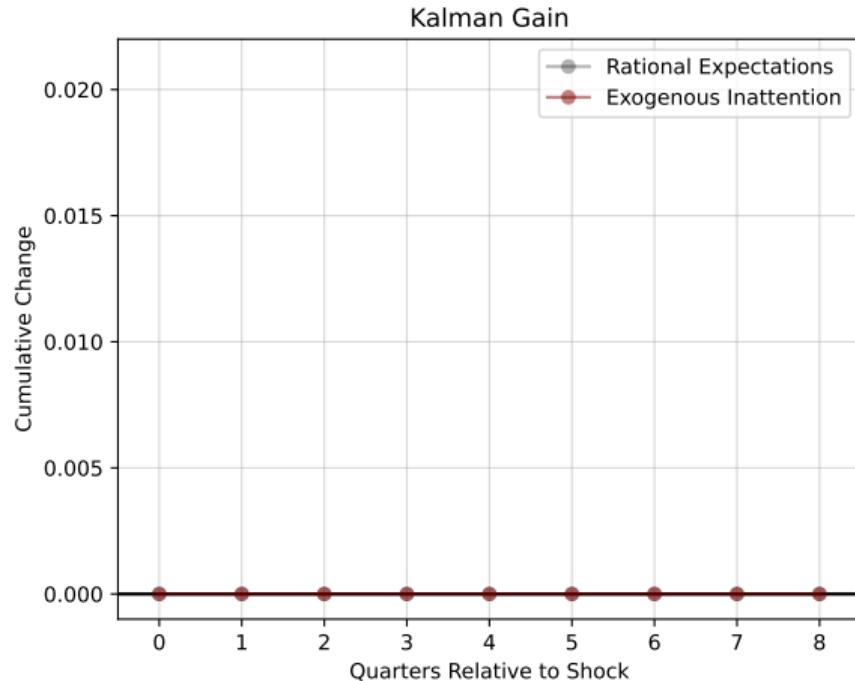
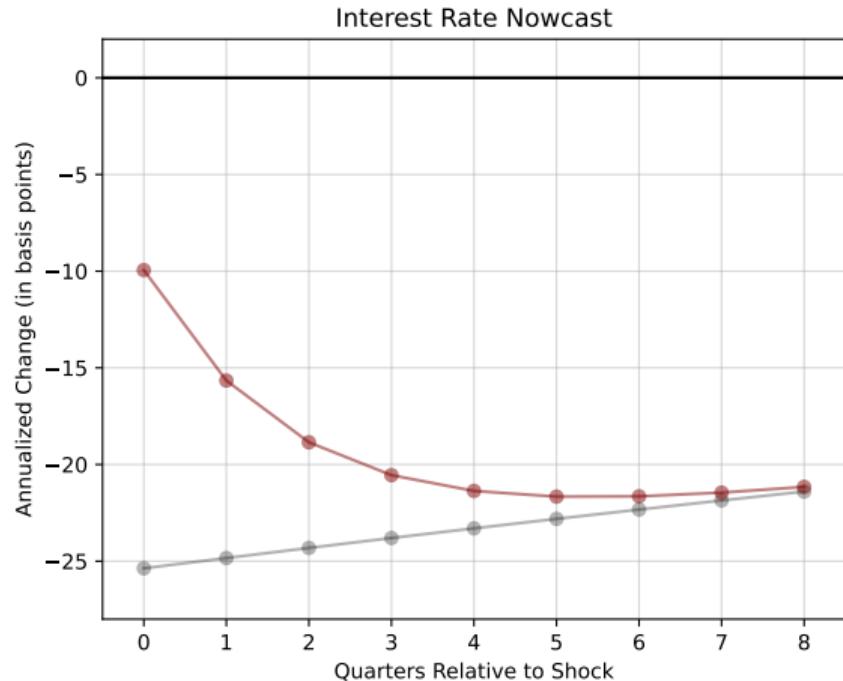
IMPULSE RESPONSE OF BELIEFS TO RATE CUT



Rational expectations: households observe current interest rate

► Decomposition

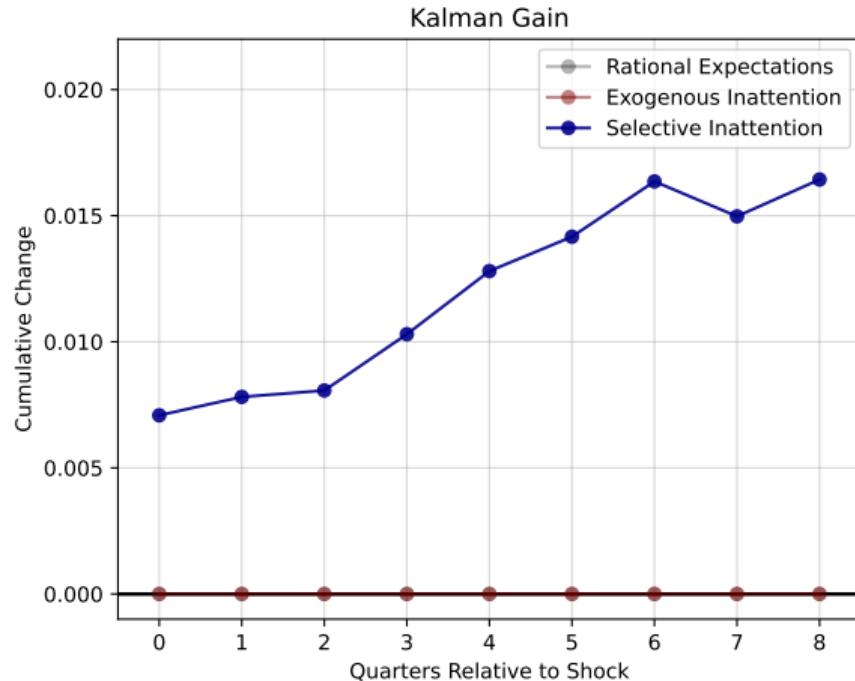
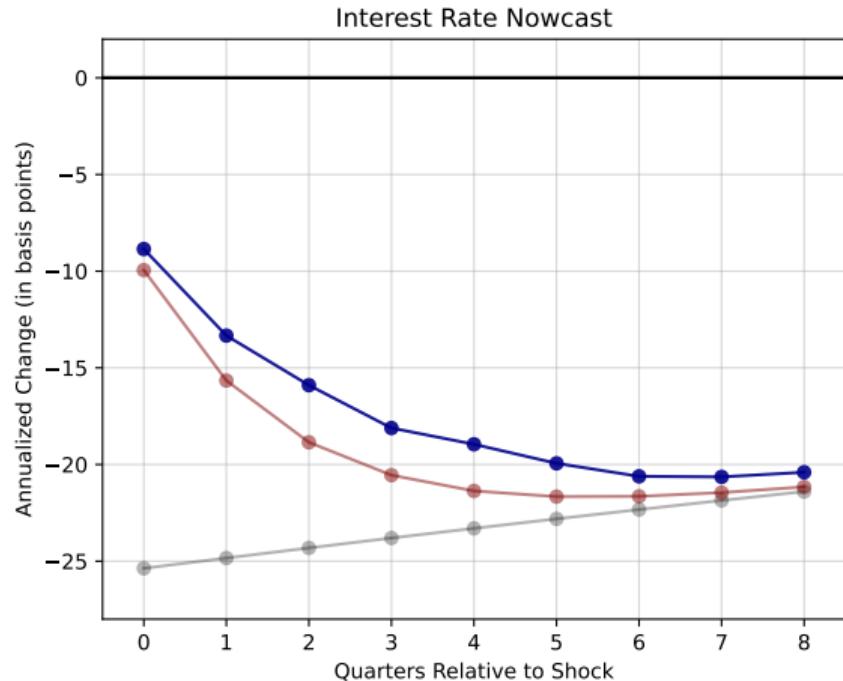
IMPULSE RESPONSE OF BELIEFS TO RATE CUT



Exogenous inattention: constant G set to match CG 15 coefficient in baseline model

► Decomposition

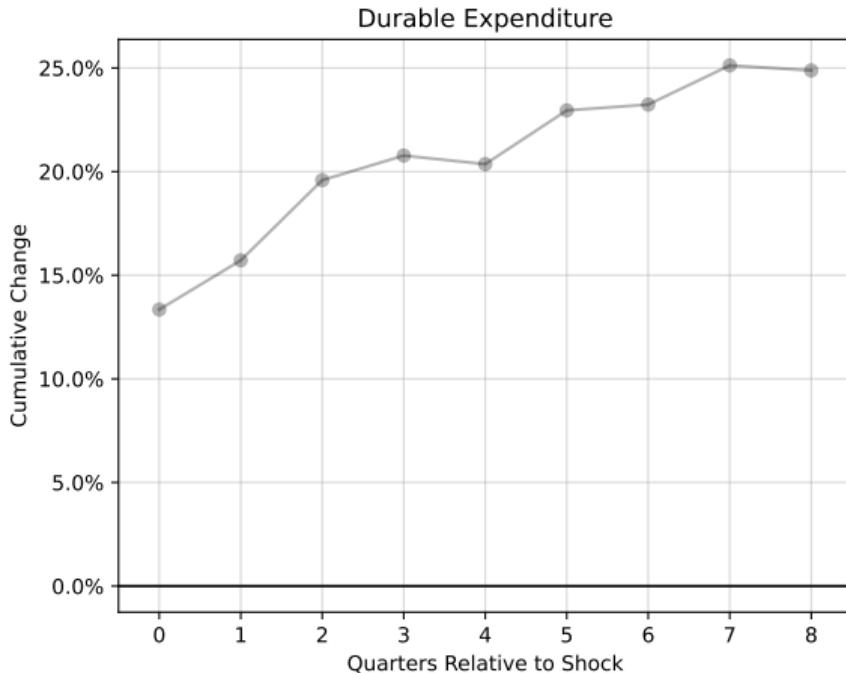
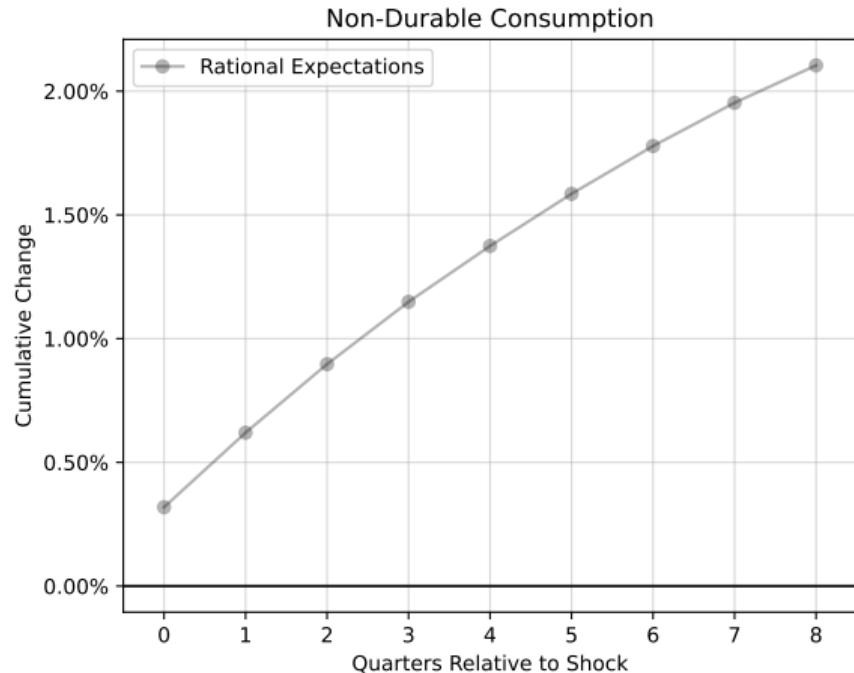
IMPULSE RESPONSE OF BELIEFS TO RATE CUT



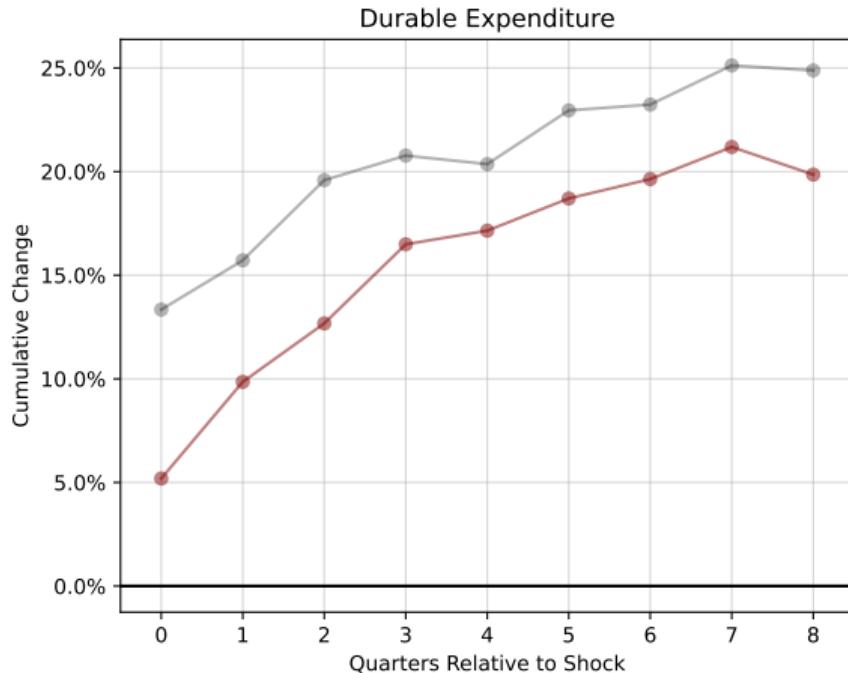
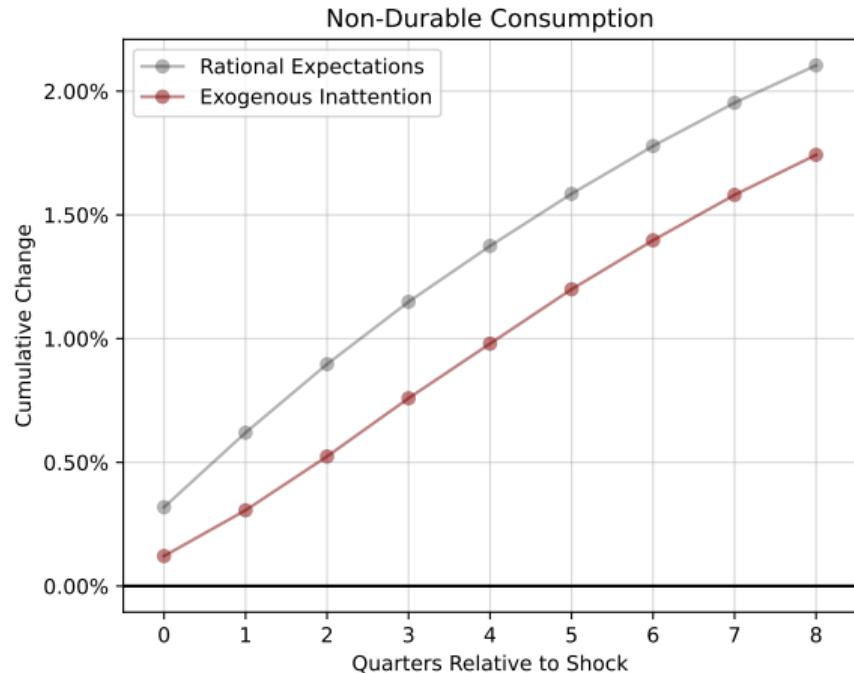
Selective inattention: baseline model with endogenous information acquisition

► Decomposition

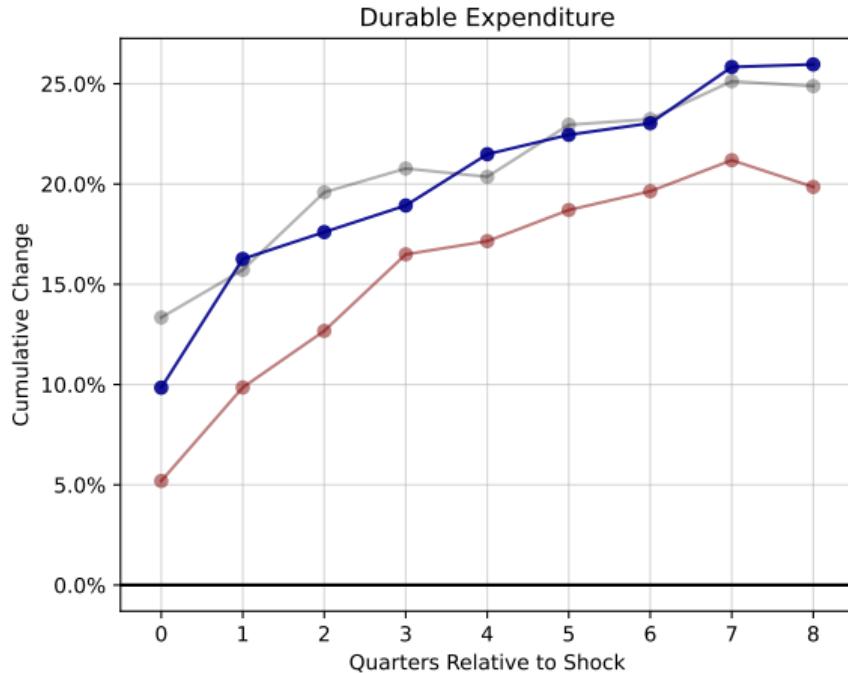
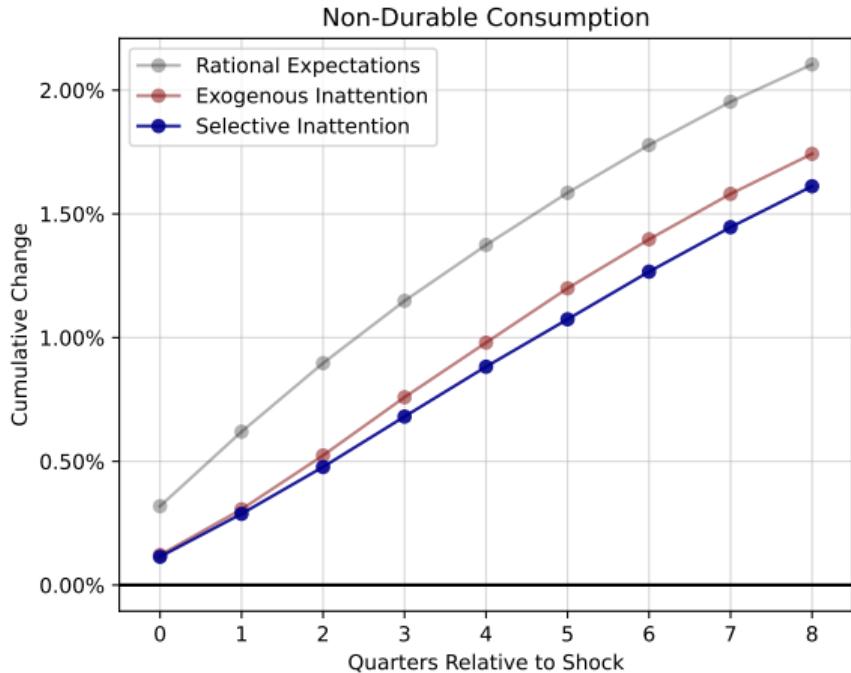
IMPULSE RESPONSE OF SPENDING TO RATE CUT



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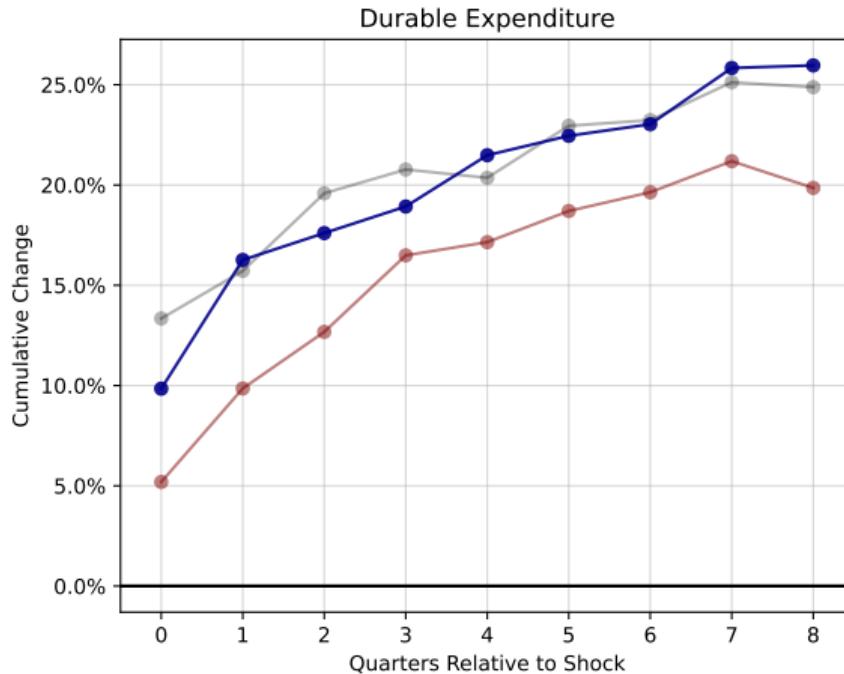
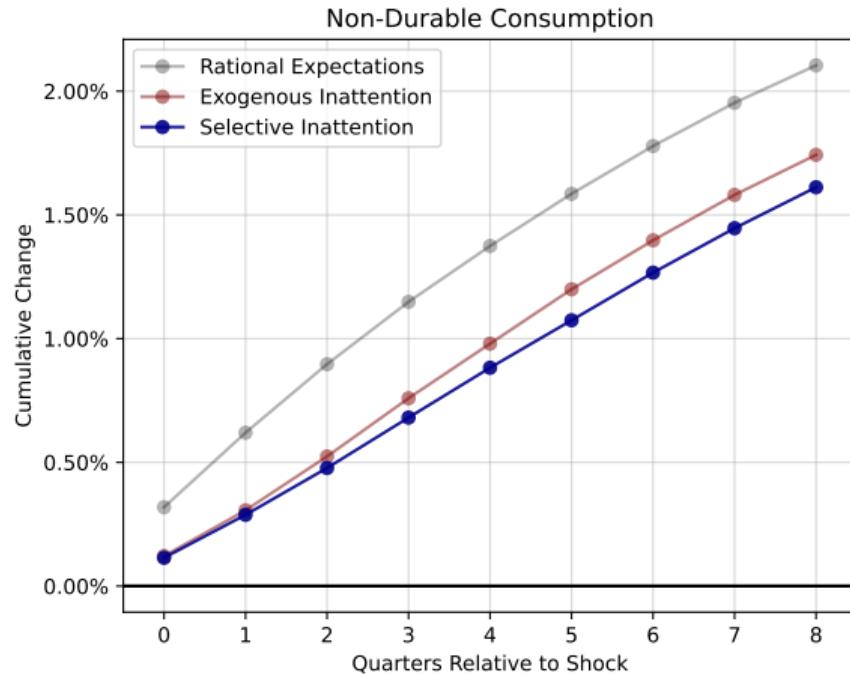


IMPULSE RESPONSE OF SPENDING TO RATE CUT



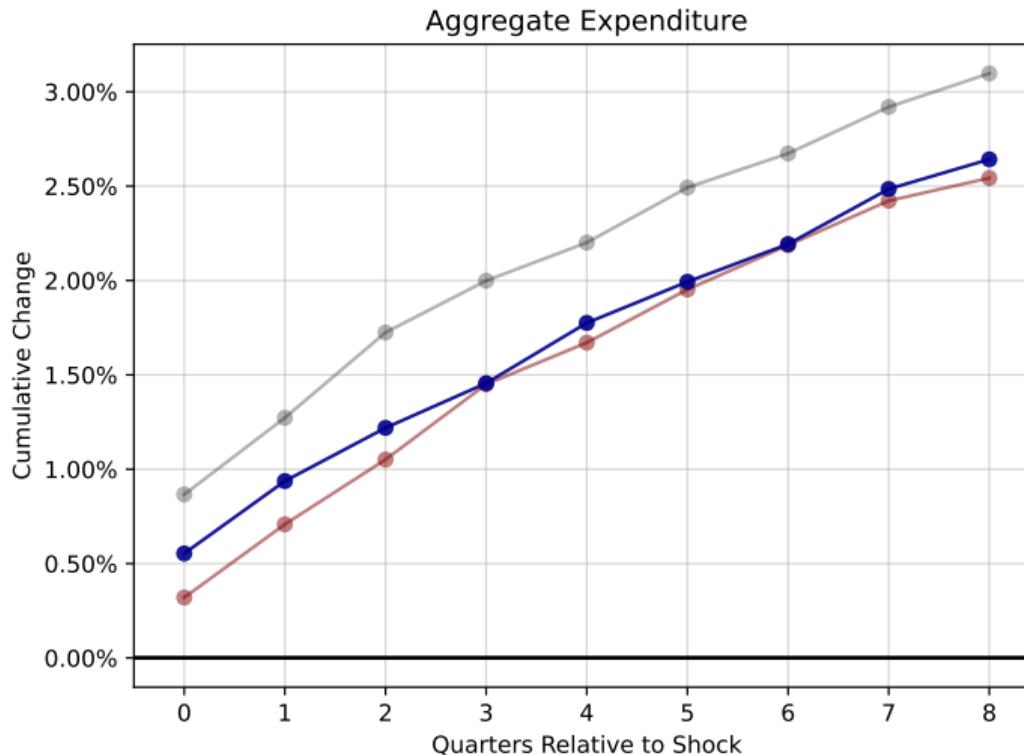
Non-durable response is damped like with **exogenous inattention**...

IMPULSE RESPONSE OF SPENDING TO RATE CUT



... but **durable** response is larger, closer to **rational expectations!**

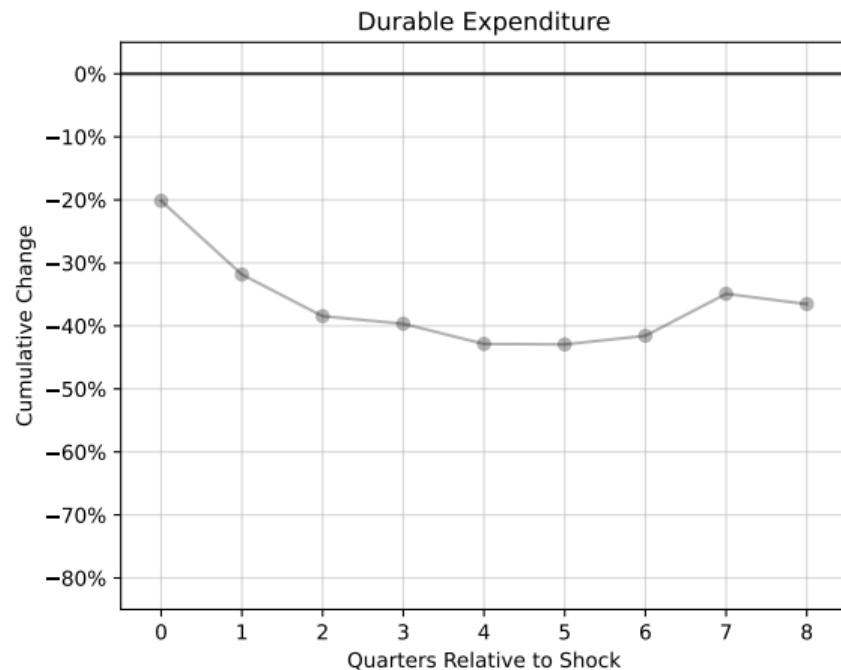
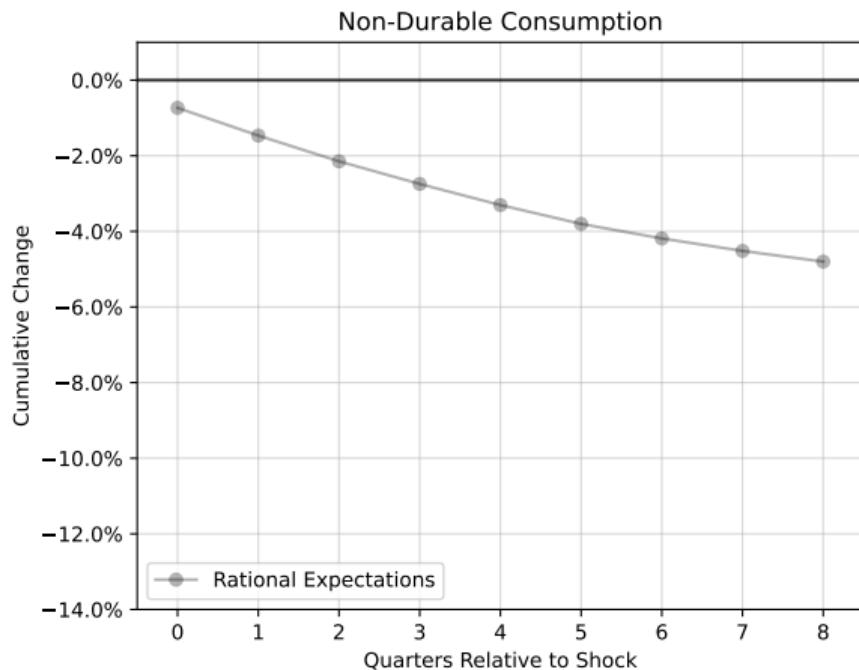
SMALL DIFFERENCE IN AGGREGATE SPENDING RESPONSE TO RATE CUT



Shift in **composition** of spending to durables \Rightarrow GE effects through $\frac{p_d}{p_c}$ Barsky et al. 07

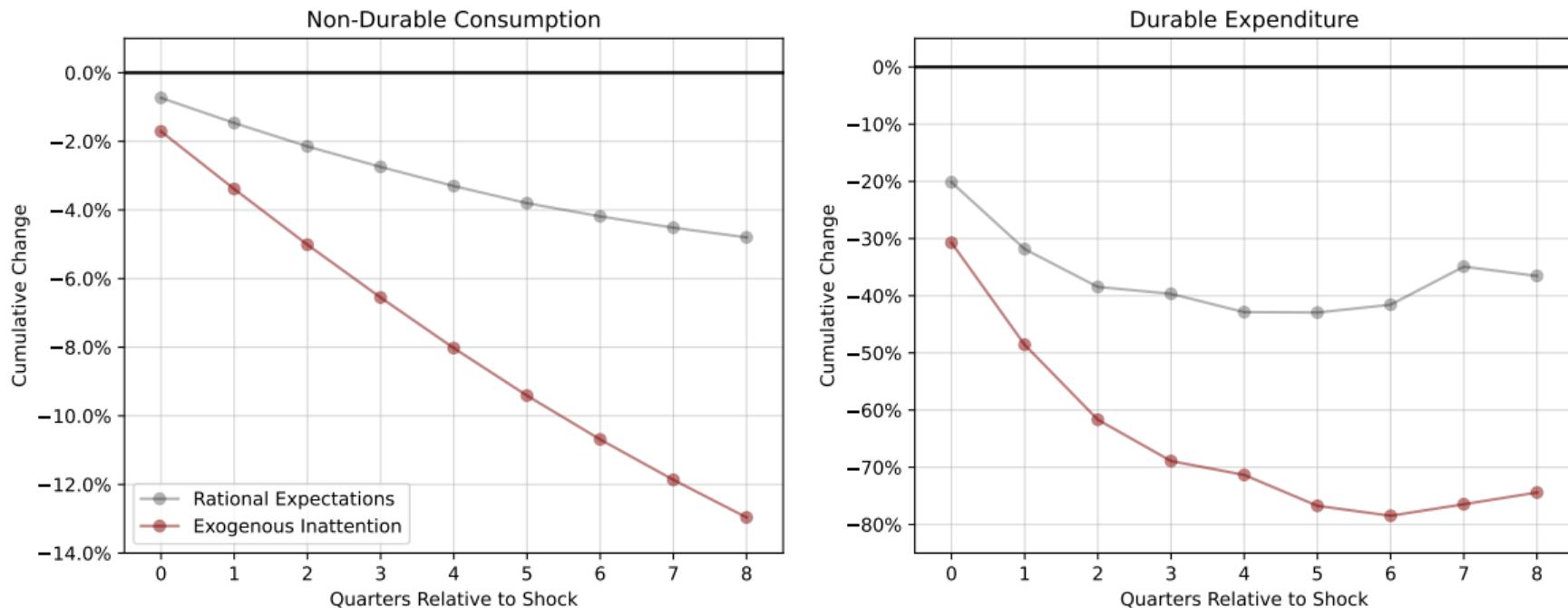
EFFECTS OF CHANGES IN INTEREST RATE VOLATILITY

IMPULSE RESPONSE OF SPENDING TO INCREASE IN VOLATILITY



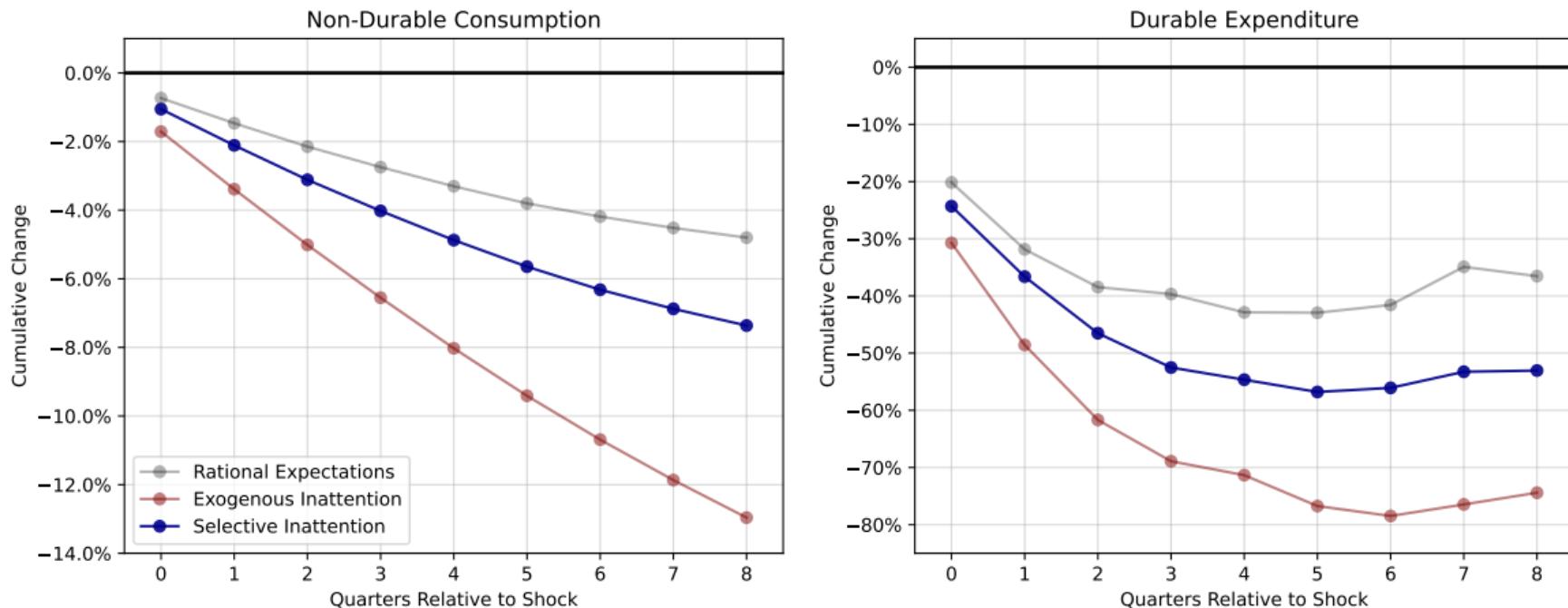
Increase in volatility \Rightarrow spending falls due to precautionary motives...

IMPULSE RESPONSE OF SPENDING TO INCREASE IN VOLATILITY



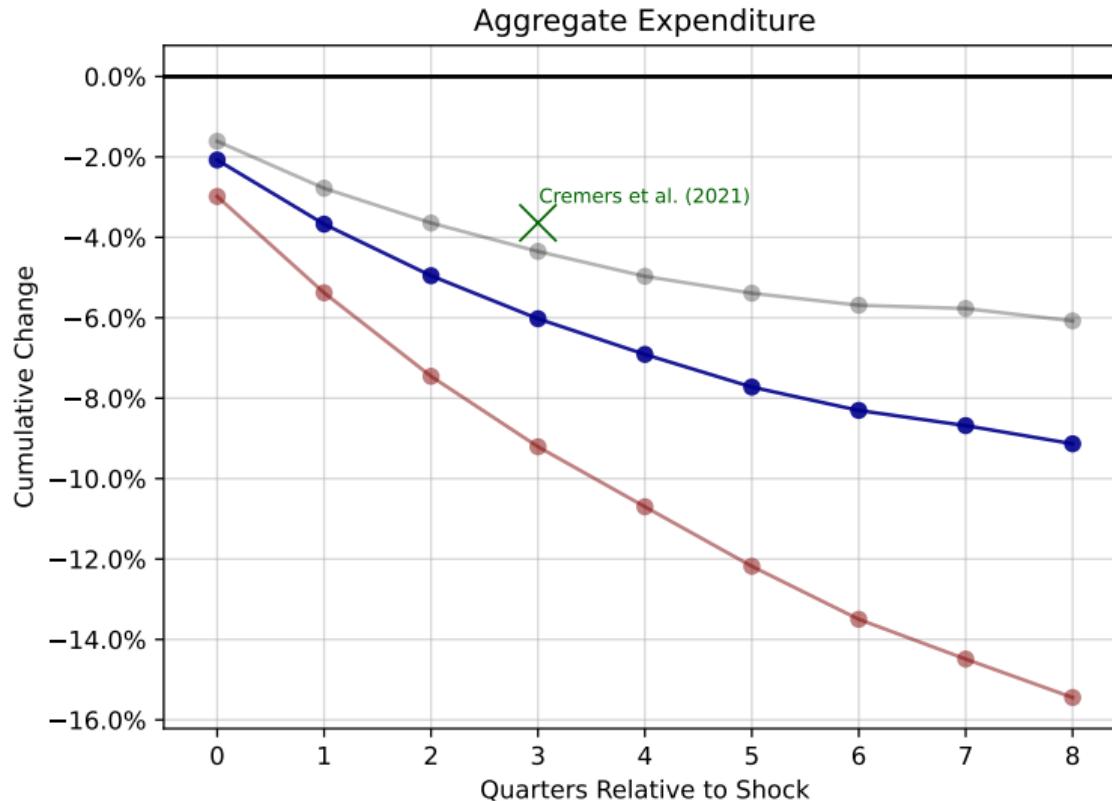
... which is stronger with **exogenous inattention** because of additional uncertainty

IMPULSE RESPONSE OF SPENDING TO INCREASE IN VOLATILITY



Selective inattention undoes over 50% of this fall due to ↑ info. acquisition!

RESPONSE OF AGGREGATE SPENDING IS CLOSER TO THE DATA



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- Data: Households are **selectively inattentive** to interest rates
 - IA is concentrated around durables purchases, where beliefs are more accurate
- Model: **Like** exogenous inattention, **selective** inattention generates:
 - ① Slow-moving aggregate beliefs
 - ② Dampened responses of non-durable consumption to interest rates

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- Model: **Unlike** exogenous inattention, **selective** inattention:
 - ① Shifts the **composition** of spending responses to rate cuts towards durables
 - ② **Dampens** responses to changes in volatility closer to the data
 - ③ **Accelerates** the impact of larger rate cuts (see paper)
 - ④ **Reduces** state dependence of rate cuts on volatility (see paper)

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Takeaway: Aggregate inattention hides substantial **selection** into attention that can be measured, modeled, and has different implications!

THANK YOU!

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ADDITIONAL RESULTS FROM NEW SURVEY

- Information acquisition (IA) is primarily about the current values of variables 
- Primary source of information is internet search 
- No difference in IA based on mortgage type or refinancing plans 
- Positive effect of decision-making due to job relocations on IA 
- IA is directly associated with belief accuracy and uncertainty 
- Similar improvement in belief accuracy for home purchases to SCE 
- Reductions in subjective uncertainty for home purchases 

SURVEY DESCRIPTION

We design and conduct a cross-sectional survey of U.S. households via Prolific

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Survey Innovations

- Direct measure of distance from durable adjustments
 - Primary home purchase
 - Car purchases
- Measures of information acquisition other than forecasting performance
 - Last active search for information about key variables

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Main Blocks

- ① Home decision-making: distance from primary home purchase

We design and conduct a cross-sectional survey of U.S. households via Prolific

Survey Innovations

- Direct measure of distance from durable adjustments
 - Primary home purchase
 - Car purchases
- Measures of information acquisition other than forecasting performance
 - Last active search for information about key variables

Main Blocks

- ① Home decision-making
- ② Other decisions: distance from car purchase + other major financial decisions

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Main Blocks

- ① Home decision-making
- ② Other decisions
- ③ Information acquisition: time since last search + type/source of info searched

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Main Blocks

- ① Home decision-making
- ② Other decisions
- ③ Information acquisition
- ④ Macro expectations: beliefs about mortgage rates, T-Bill rates, and inflation

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Survey Innovations

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Main Blocks

- ① Home decision-making
- ② Other decisions
- ③ Information acquisition
- ④ Macro expectations
- ⑤ Background & financial situation: info on household's balance-sheet using SCF format, demographics, job relocations

▶ Questions

◀ Back

MAIN SURVEY QUESTIONS

- Eliciting our main measure of information acquisition

Step 1: *In the last 3 years, did you actively search for information about any of the following economic variables in the U.S.?*

By "active search" we mean a deliberate effort to find information which could include searching online, reading news articles or reports, talking to a financial advisor or broker, or any other intentional effort to gather information.

Step 2: *How many months ago did you last actively search for information about mortgage rates?*

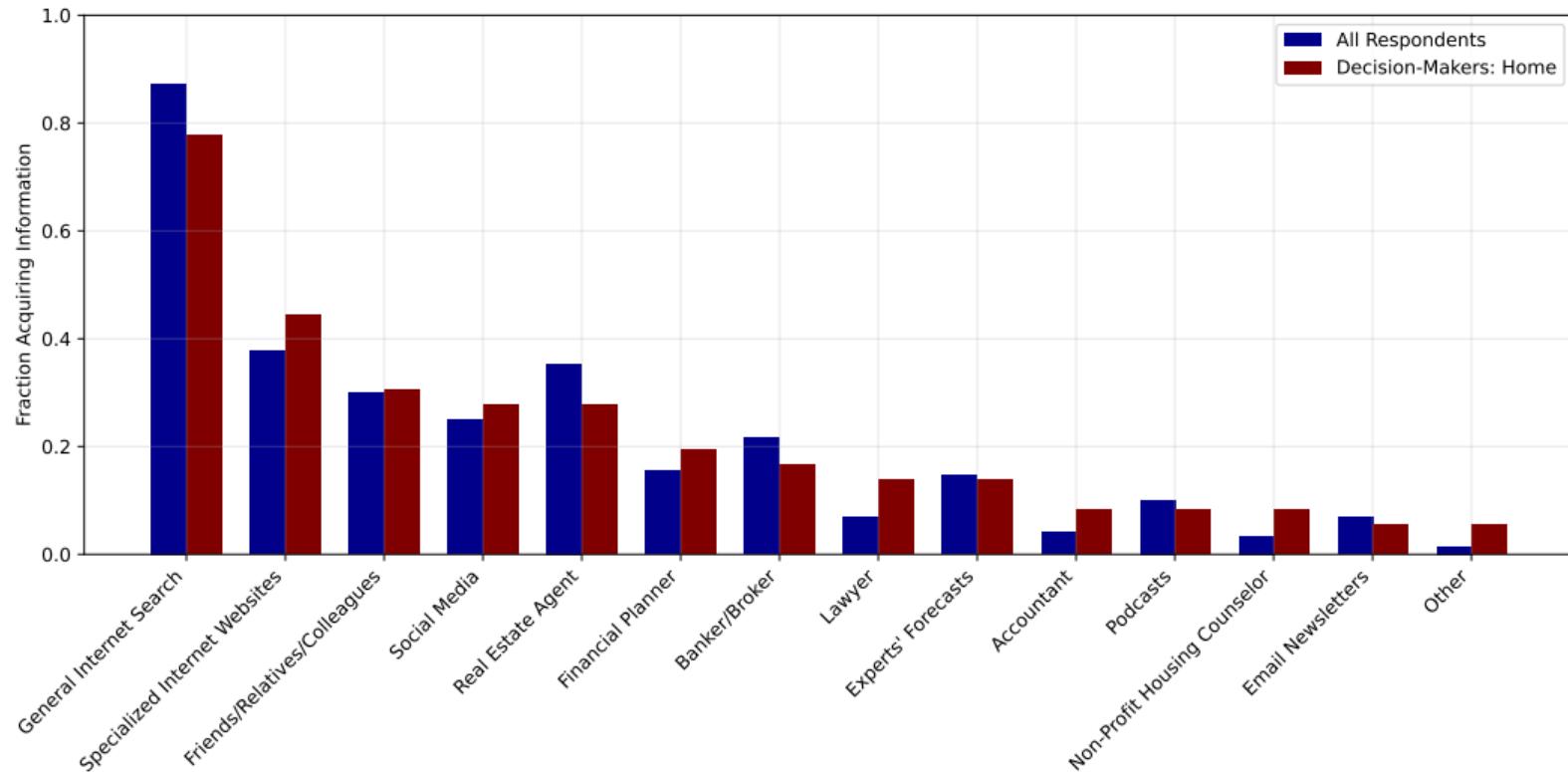
- Eliciting households' distance from the primary home purchase

Owners: *How many months ago did you finalize the purchase of your current primary residence?*

Renters: *How many months from now do you expect the closing on your primary residence purchase?*

By "closing", we mean signing the final documents to officialize the purchase.

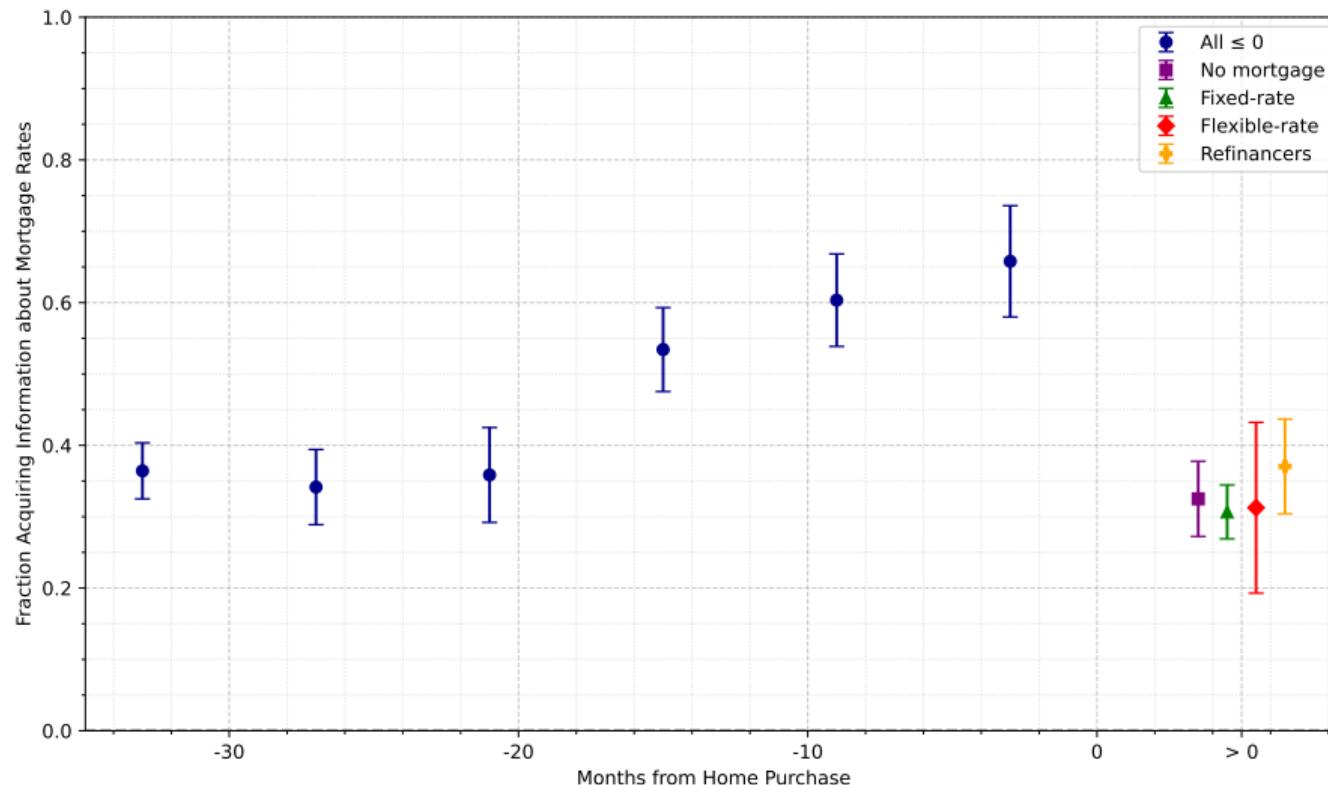
SOURCES OF INFORMATION ACQUISITION



◀ Back: IA

◀ Back: Additional Results

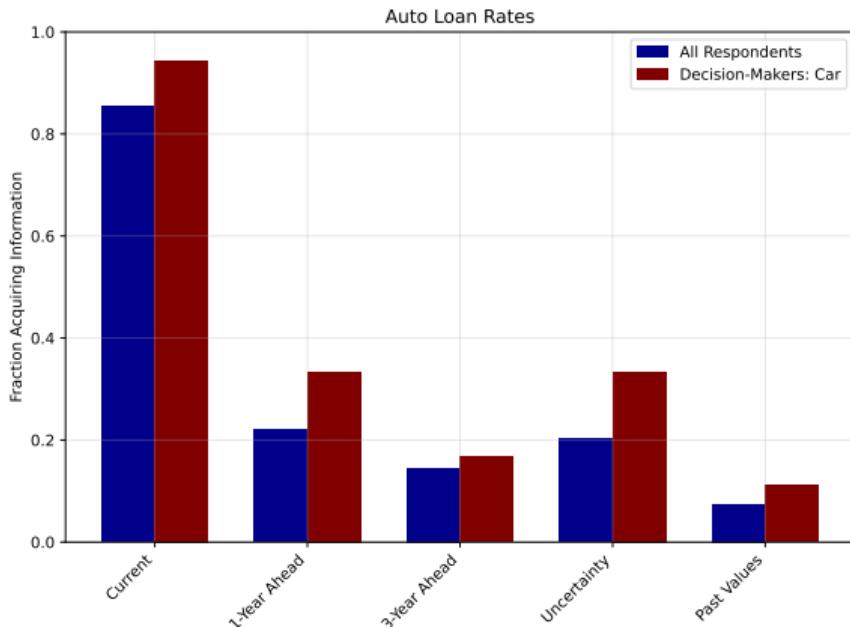
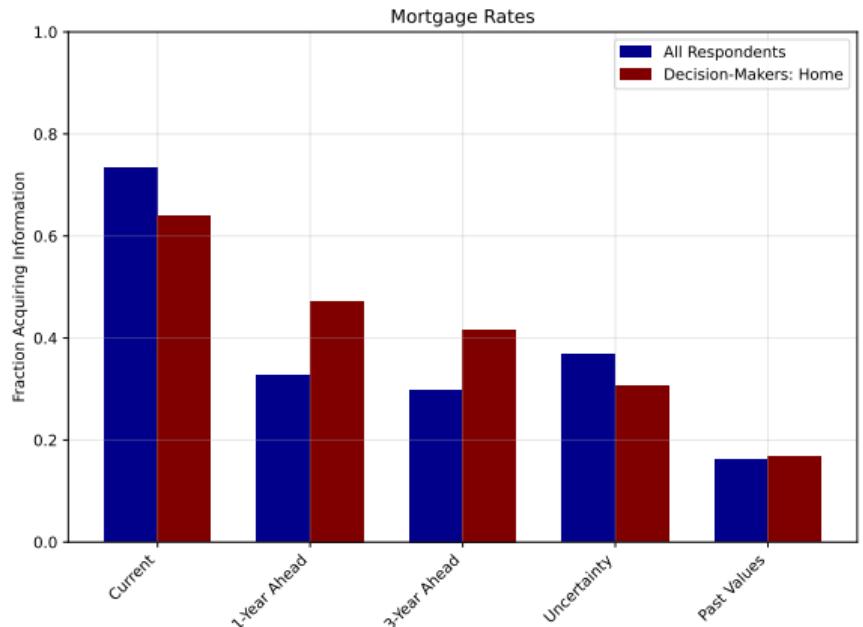
HETEROGENEITY IN INFORMATION ACQUISITION OF OWNERS



◀ Back: IA

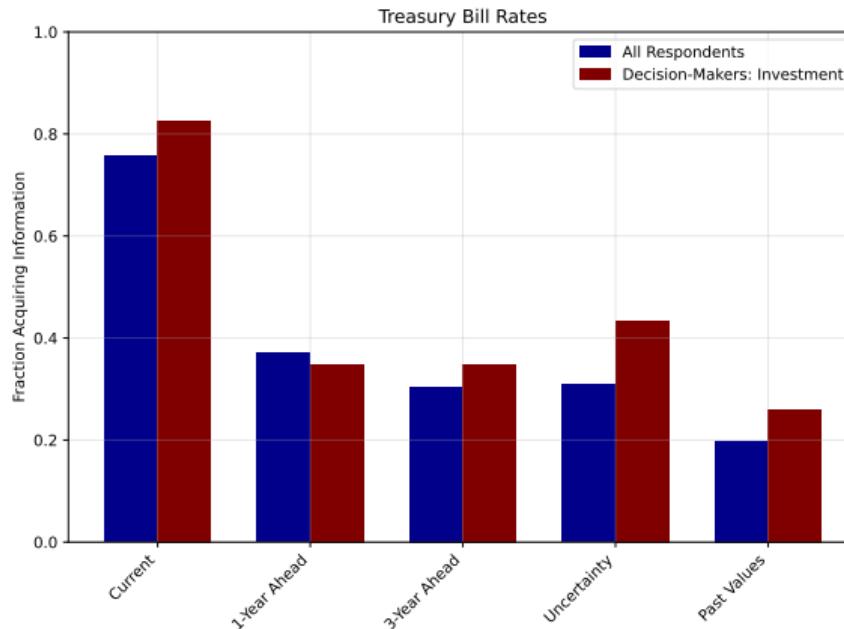
◀ Back: Additional Results

IA IS PRIMARILY ABOUT CURRENT VALUES OF VARIABLES



▶ Investment Decisions ◀ Back: IA ◀ Back: Additional Results

IA IS PRIMARILY ABOUT CURRENT VALUES OF VARIABLES



◀ Back

ENDOGENEITY OF DECISION-MAKING

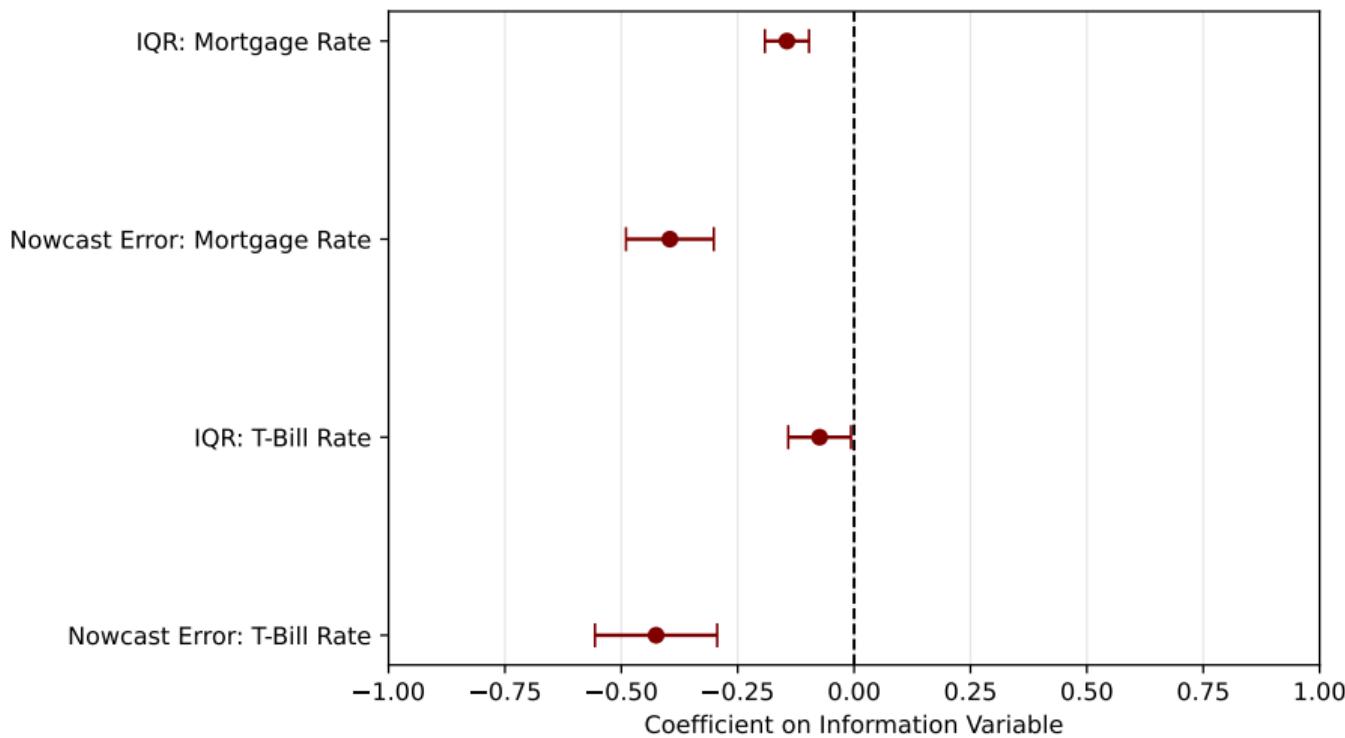
- Concern: decision-making is **endogenous** to information acquisition and beliefs
- Solution: **IV** = anticipated moves due to job relocations

Dependent Variable: Information Acquisition

Variable	OLS	First Stage	IV	OLS	First Stage	IV
Home Decision-Maker	0.30*** (0.07)		0.89*** (0.34)	0.30*** (0.06)		0.96*** (0.34)
Job Relocation		0.23*** (0.07)			0.23*** (0.07)	
N	787	787	787	787	787	787
Controls				✓	✓	✓
F-stat		10.51			3.57	

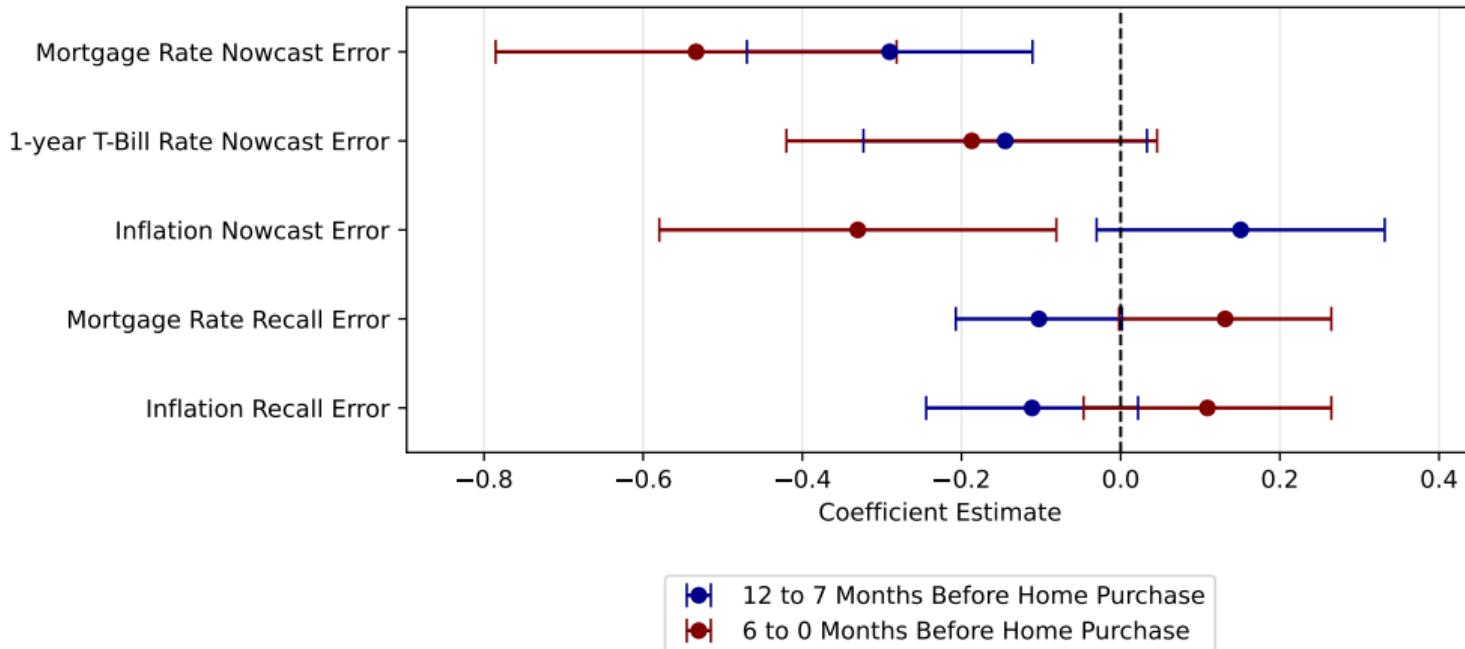
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DIRECT ASSOCIATION BETWEEN IA AND BELIEFS



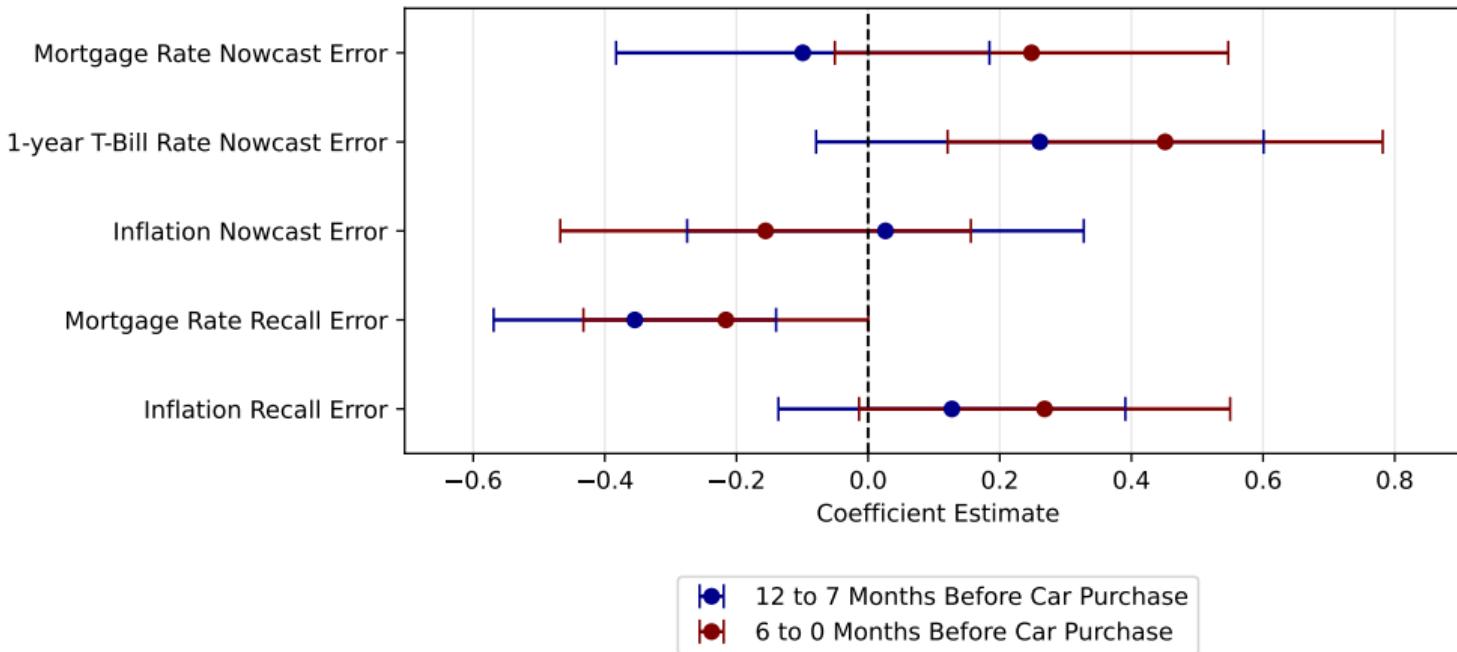
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REDUCTION IN NOWCAST ERRORS: HOME PURCHASE



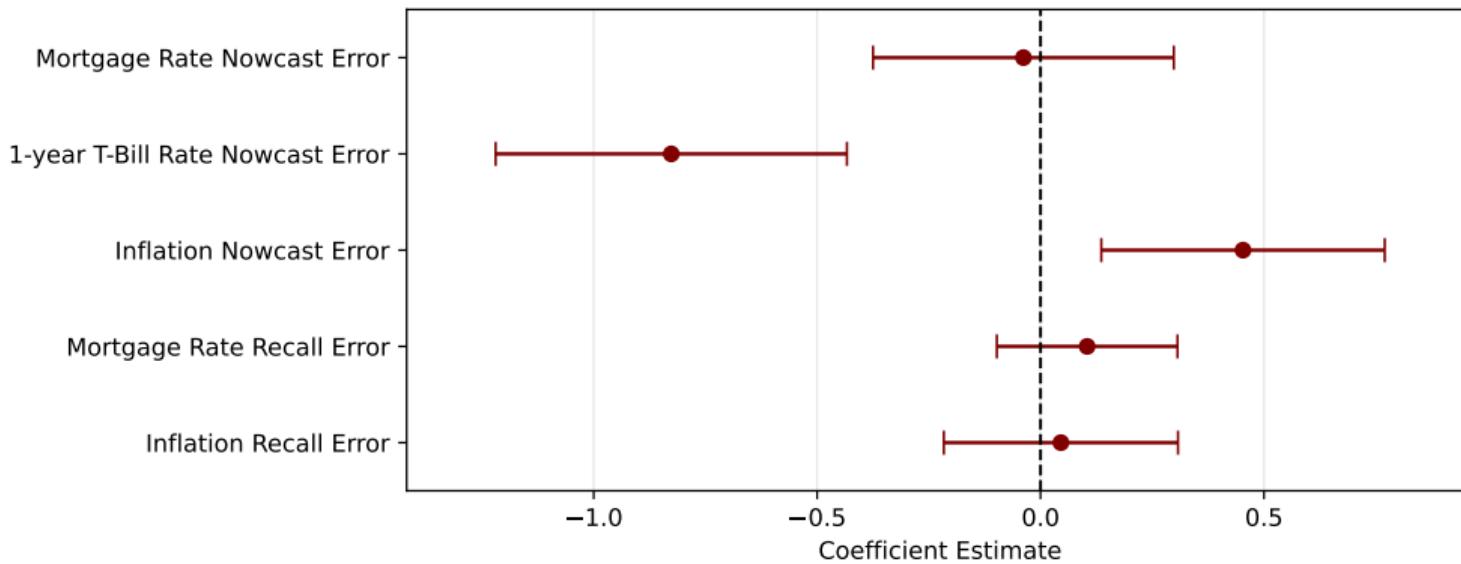
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REDUCTION IN NOWCAST ERRORS: CAR PURCHASE



◀ Back

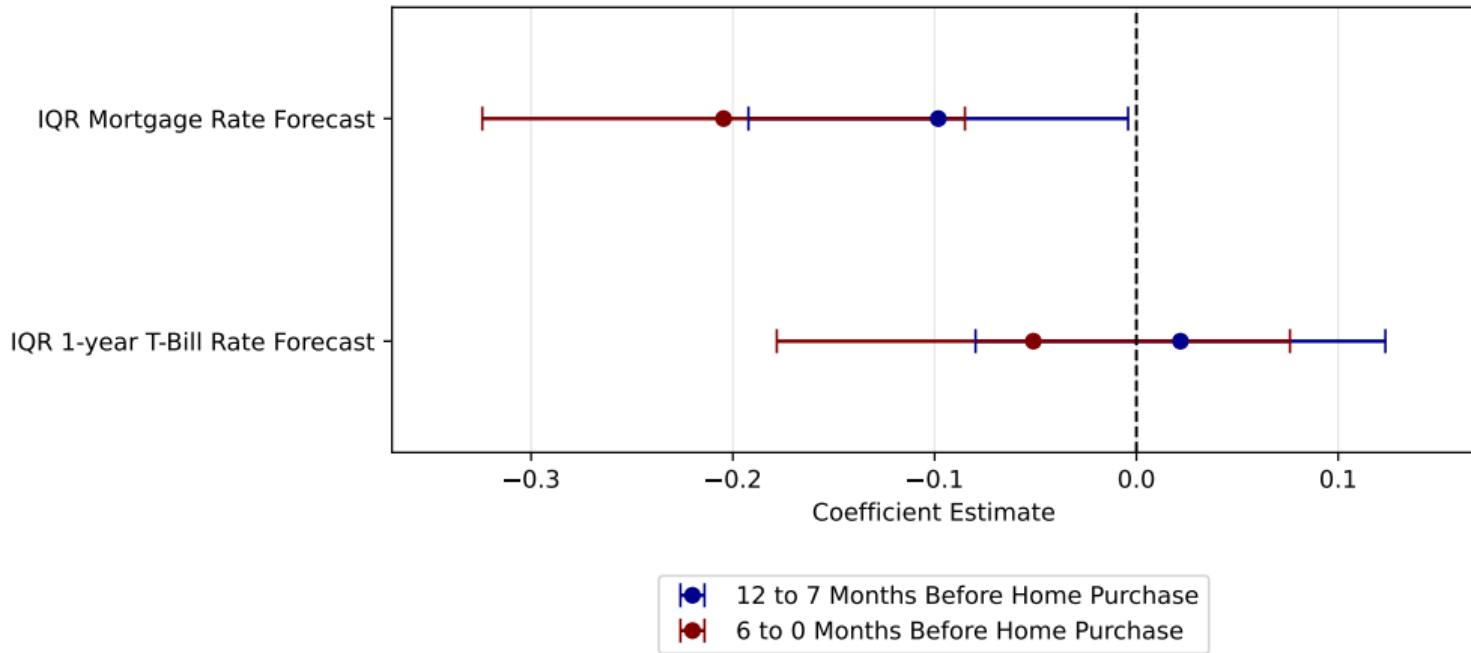
REDUCTION IN NOWCAST ERRORS: FINANCIAL INVESTMENT



Within 1 Month of Major Financial Investment

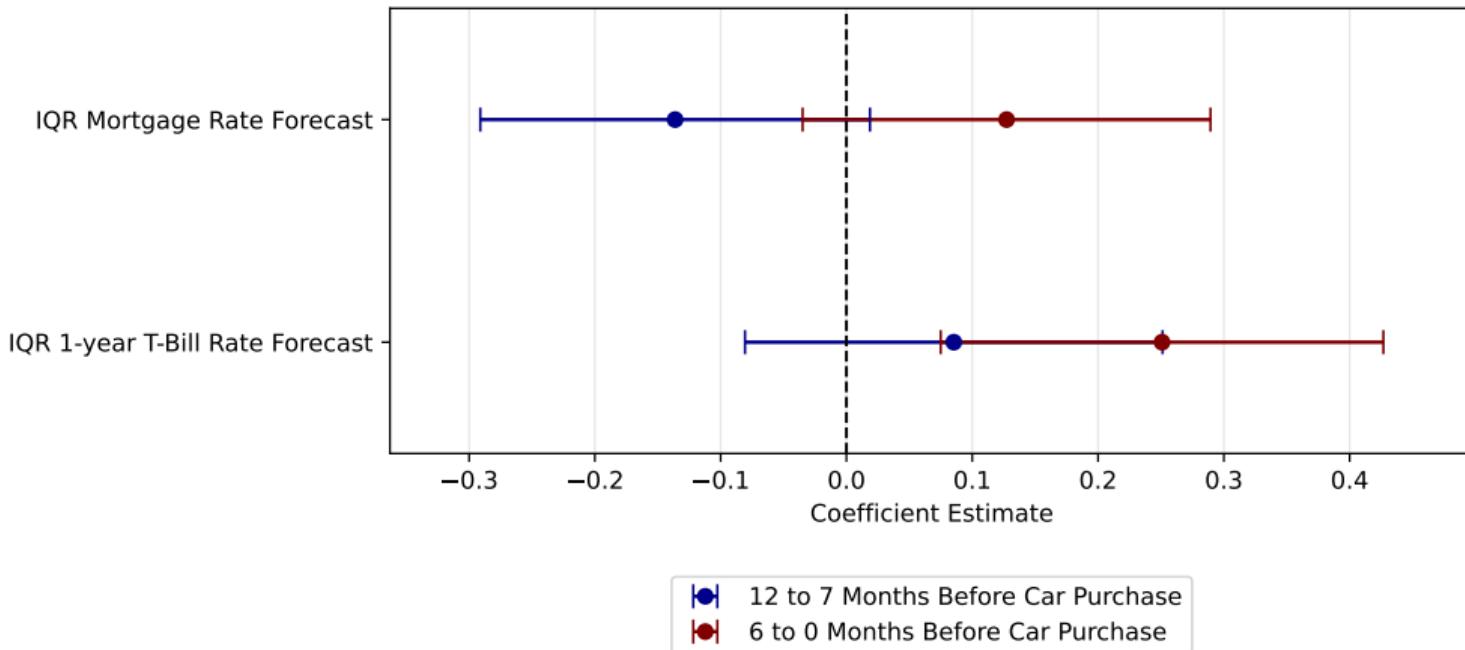
◀ Back

REDUCTION IN SUBJECTIVE UNCERTAINTY: HOME PURCHASE



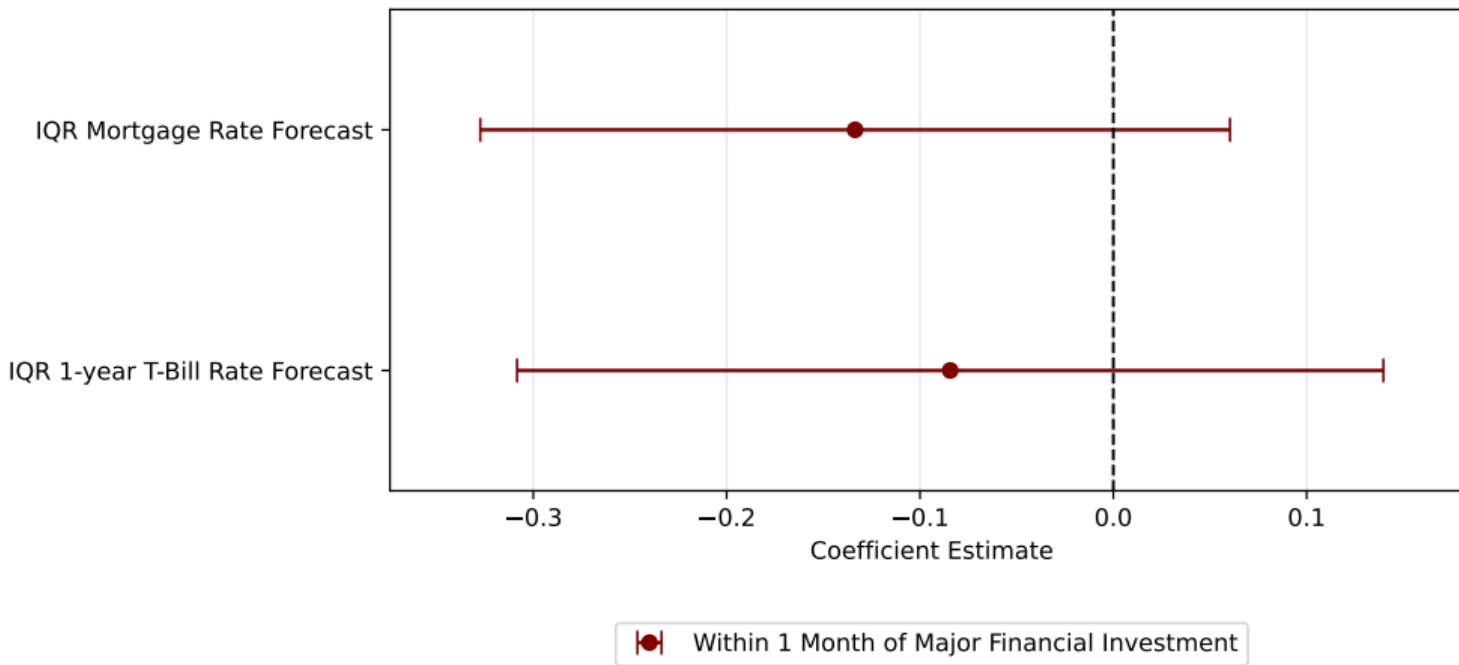
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REDUCTION IN SUBJECTIVE UNCERTAINTY: CAR PURCHASE



◀ Back

REDUCTION IN SUBJECTIVE UNCERTAINTY: FINANCIAL INVESTMENT



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WELFARE LOSS FROM INATTENTION

- Natural question: how large are welfare losses from selective inattention?
- Compute two welfare metrics in **basis points** of lifetime consumption
 - ① **Static**: loss from not having full-information in **current** period, ignoring info. cost
 - ② **Dynamic**: loss from not having full-information in **all** periods, ignoring info. cost

[◀ Back: Calibration](#)

[◀ Back: CG](#)

WELFARE LOSS FROM INATTENTION

- Natural question: how large are welfare losses from selective inattention?
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 - ① **Static**: loss from not having full-information in **current** period, ignoring info. cost
 - ② **Dynamic**: loss from not having full-information in **all** periods, ignoring info. cost
- Losses are **small**, but still have aggregate effects! Akerlof-Yellen 85 Maćkowiak-Wiederholt

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	Static	Dynamic
Mean	0.03	2.17
Median	0.02	1.9

◀ Back: Calibration

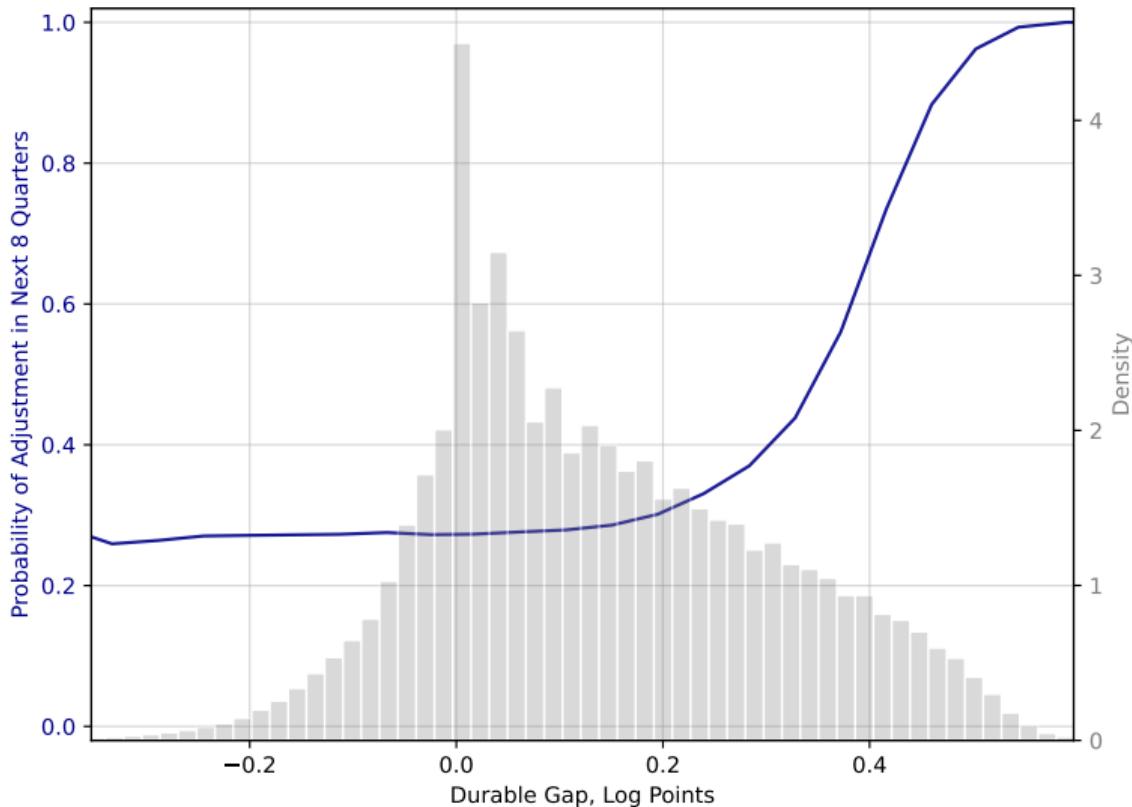
◀ Back: CG

STEADY-STATE SUMMARY STATISTICS

	Mean	SD	P10	P50	P90
Assets/Income: b/y	3.51	4.93	-0.91	1.91	10.27
Durable/Non-Durables: d'/c	2.55	0.40	1.99	2.58	3.01
Durables Gap	0.14	0.17	-0.05	0.11	0.38
Acquired Information	0.23	0.42	0.00	0.00	1.00
Kalman Gain: G	0.10	0.21	0.00	0.00	0.40
Kalman Gain Conditional on IA	0.46	0.21	0.30	0.40	0.80
Normalized Nowcast Error: $ \hat{\mathbb{E}}(r) - r / r $	0.28	8.00	0.02	0.10	0.32
Normalized Prior Variance: Σ/σ_r^2	0.33	0.17	0.13	0.30	0.57

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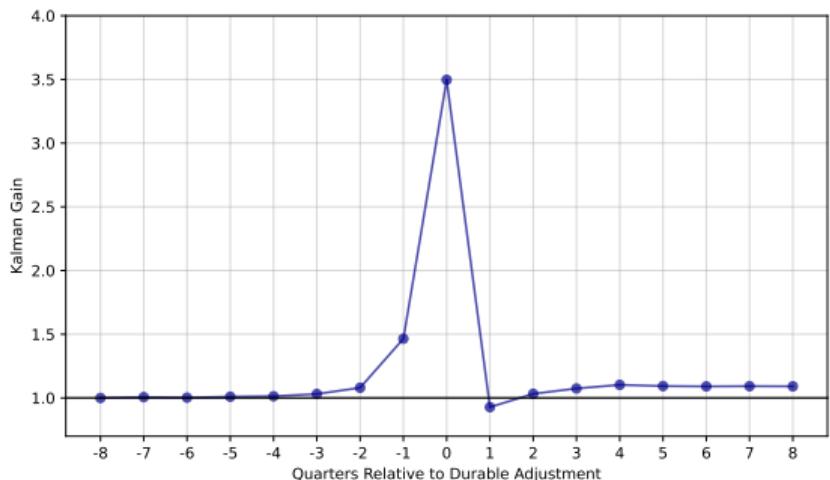
ADJUSTMENT PROBABILITY AS A FUNCTION OF DURABLES GAP



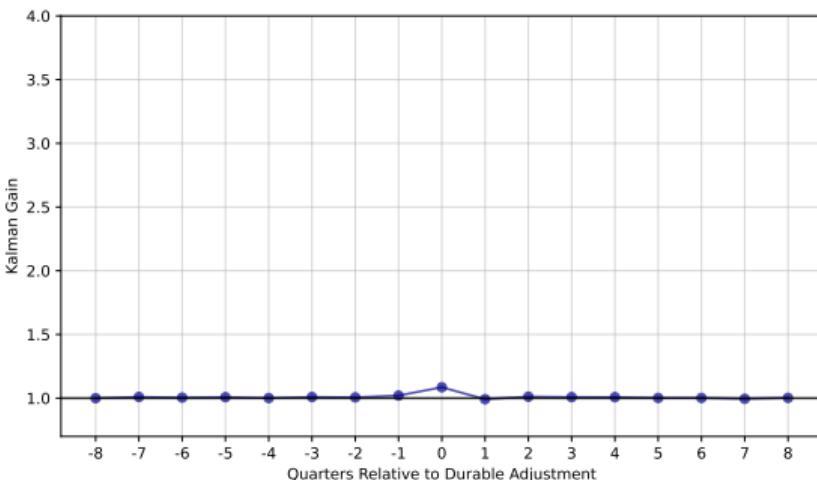
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CONCENTRATION IN INFO. ACQUISITION ↴ DURABLES SHARE

Baseline: $\psi = 0.63$

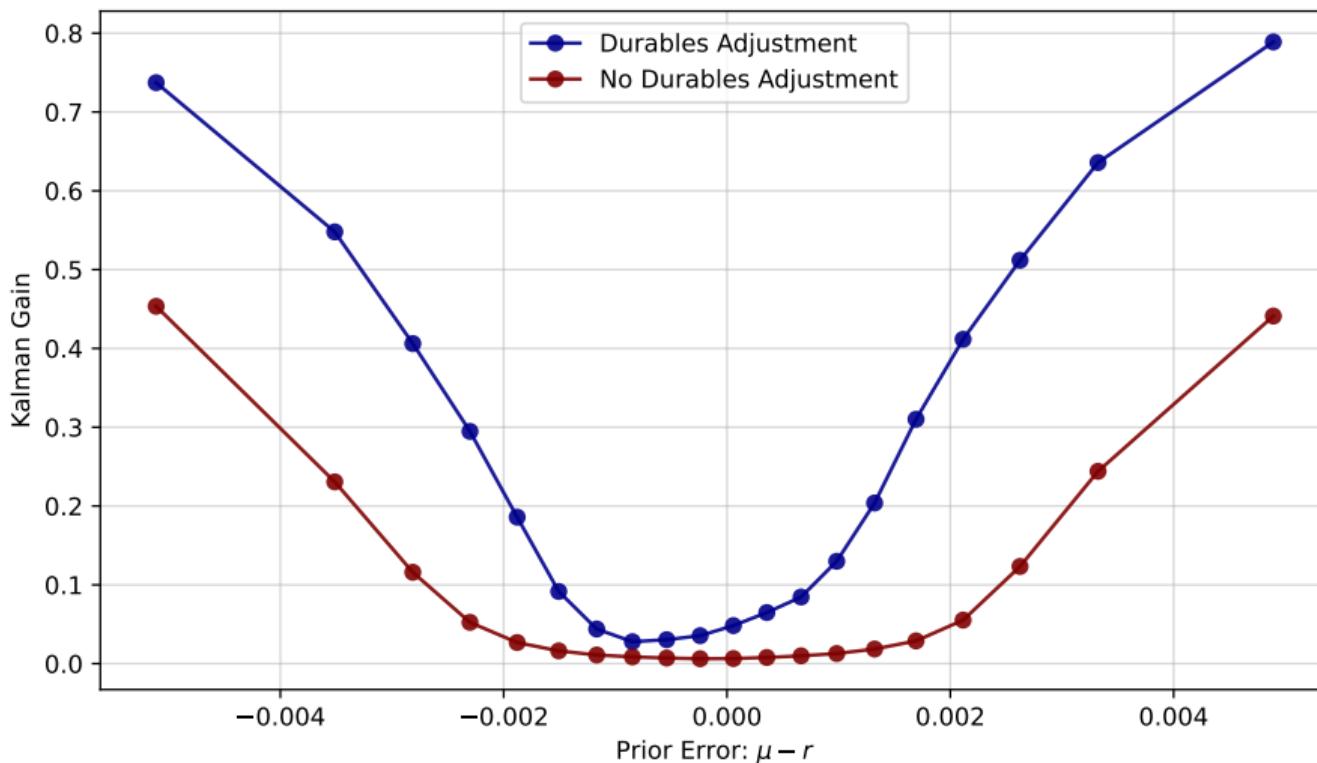


Low Durables Share: $\psi = 0.99$



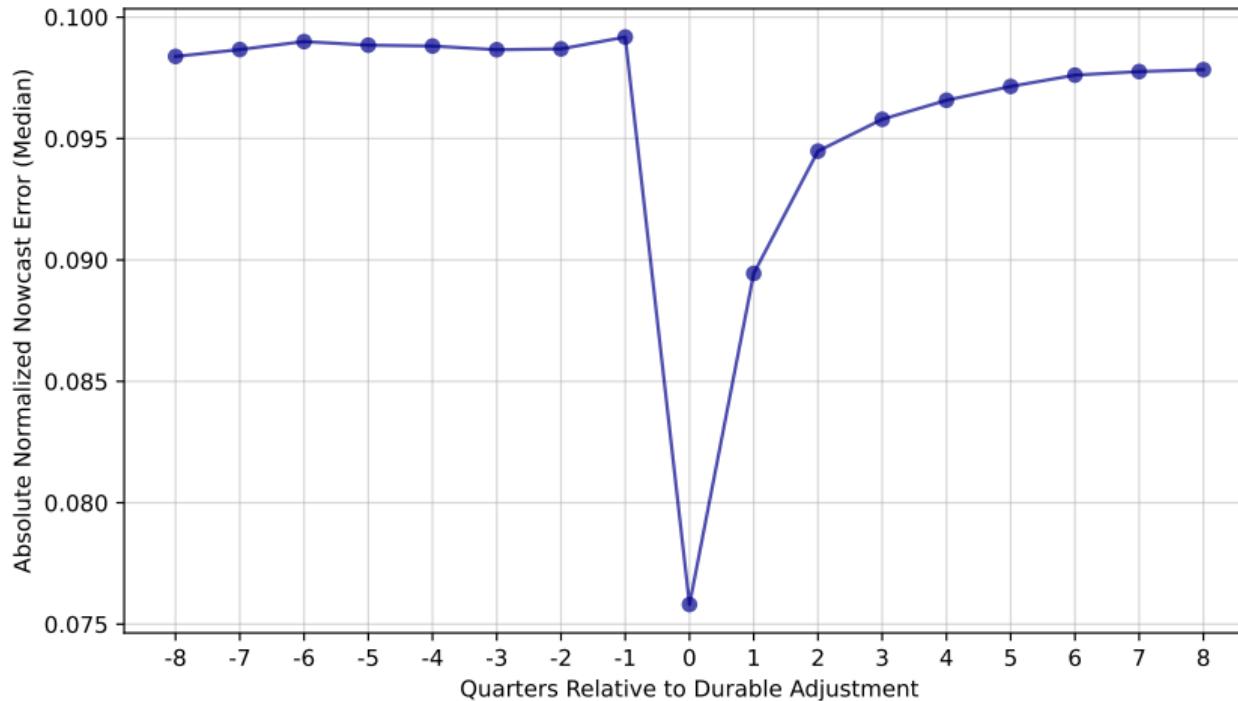
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DURABLES ADJUSTMENT SHIFT sS BANDS OF INFO. ACQUISITION



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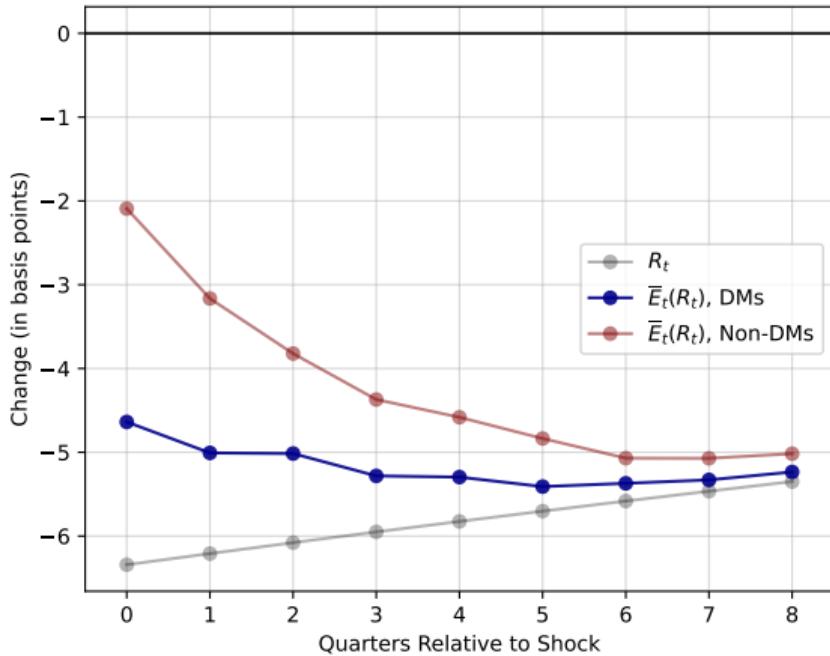
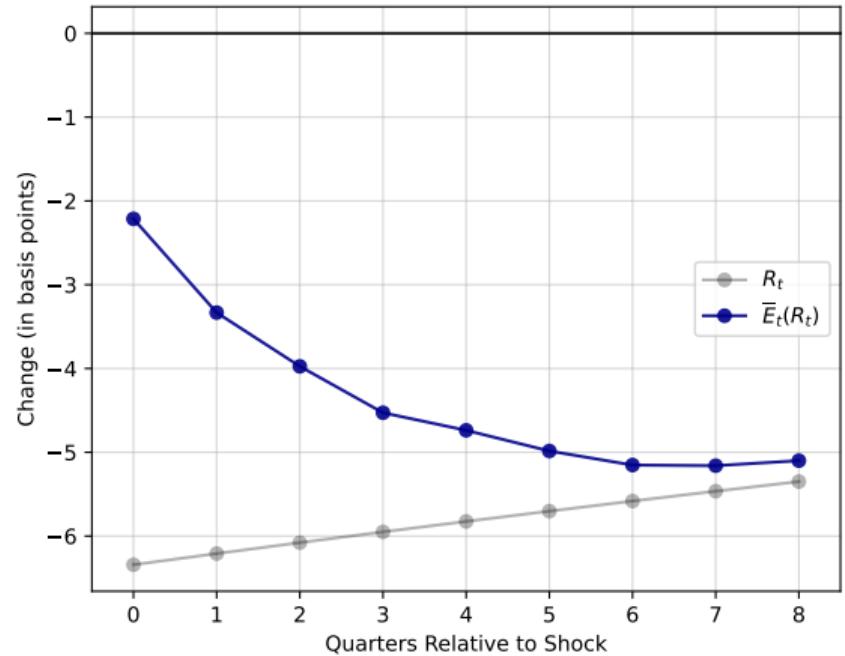
NOWCAST ERRORS IN EVENT-TIME



Forecast errors remain lower **post-choice** because beliefs are a “stock” not “flow”

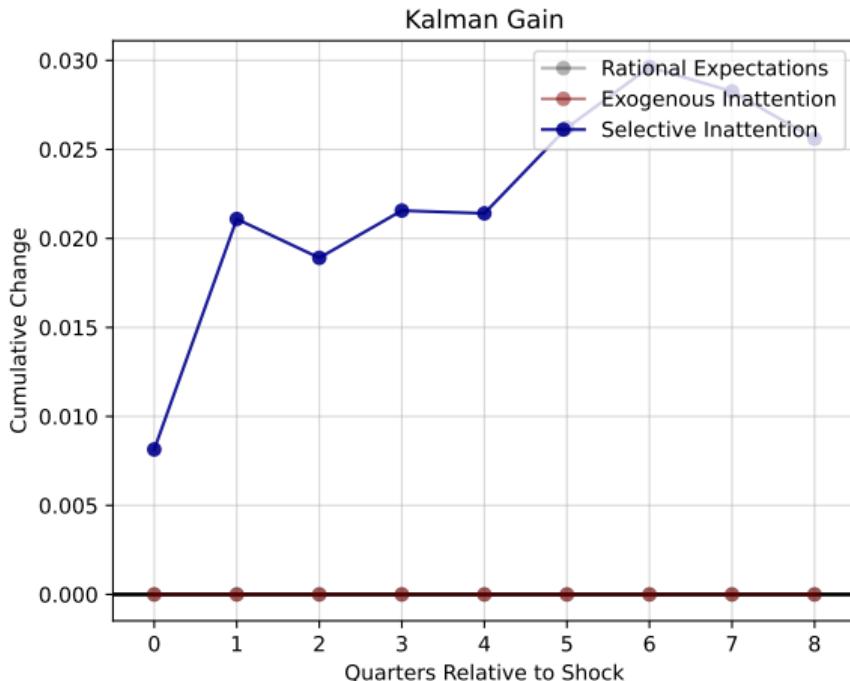
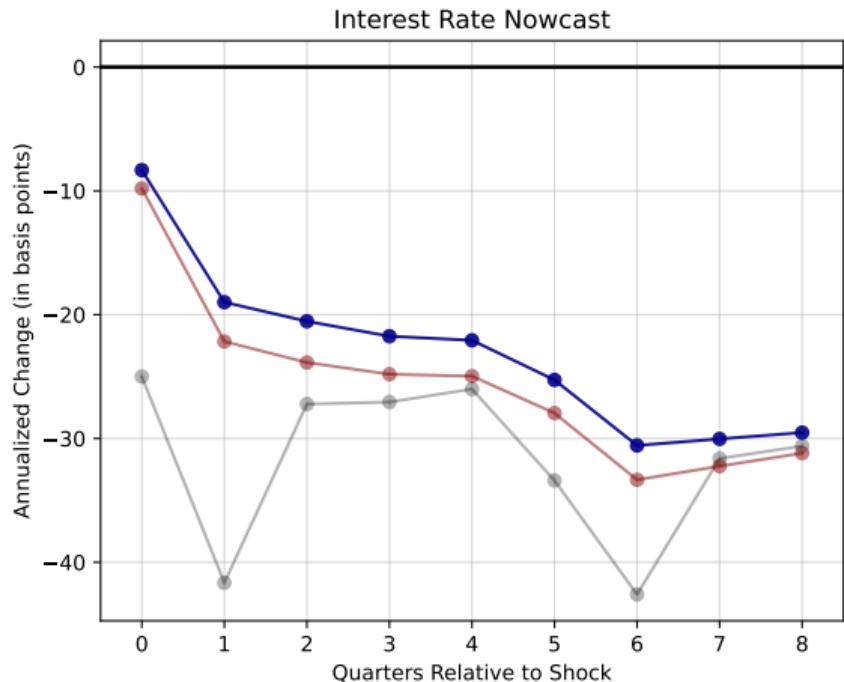
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DECOMPOSITION OF AGGREGATE BELIEF RESPONSE



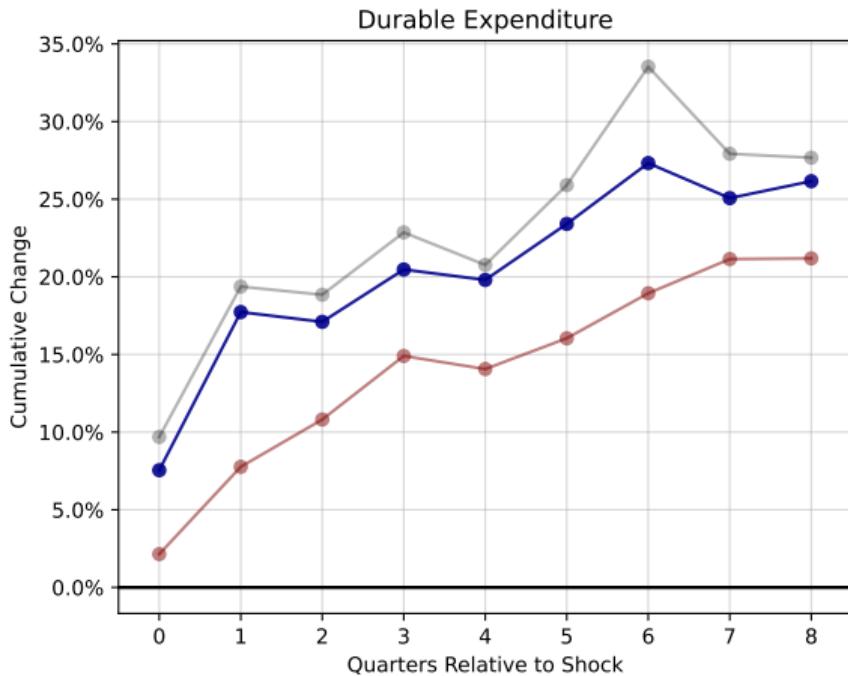
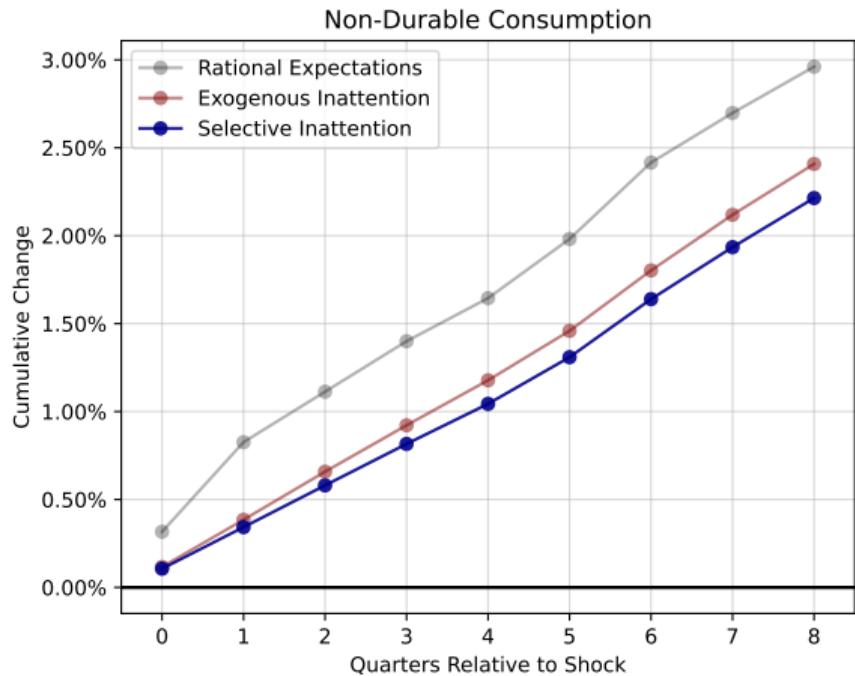
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IRFs TO ROMER-ROMER SHOCK WITH AGG. Y AND P RESPONSE



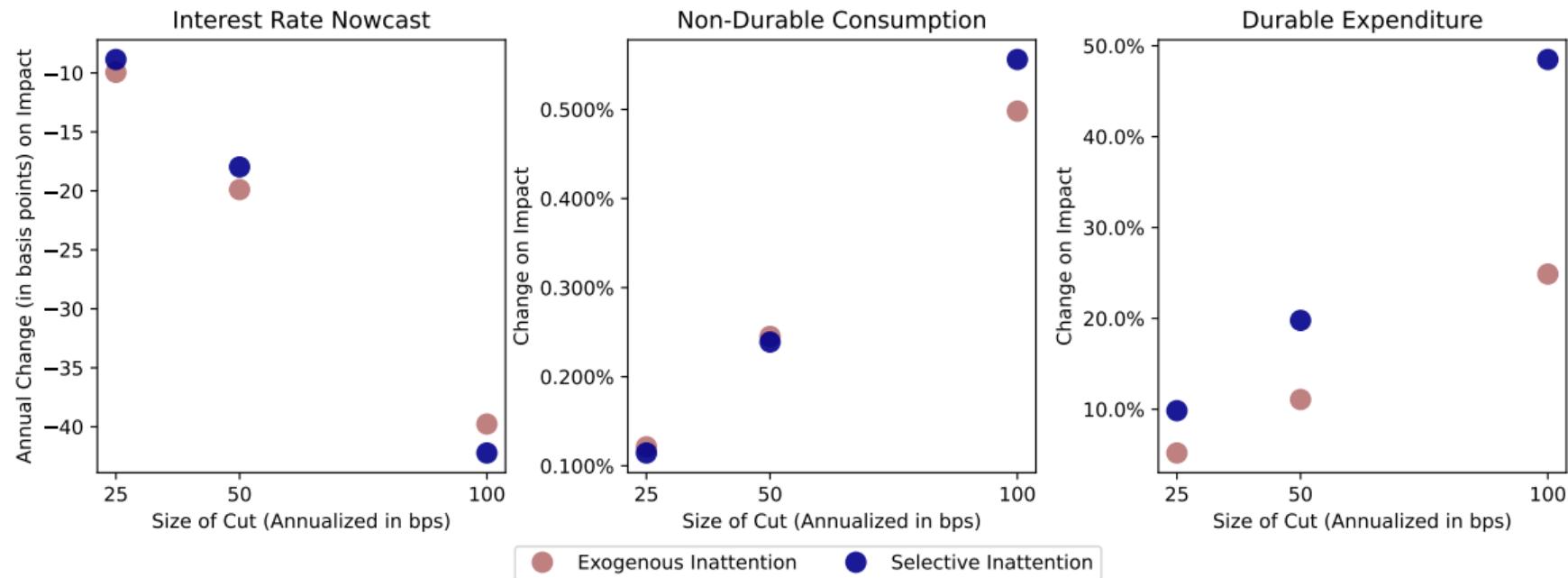
◀ Back

IRFs TO ROMER-ROMER SHOCK WITH AGG. Y AND P RESPONSE



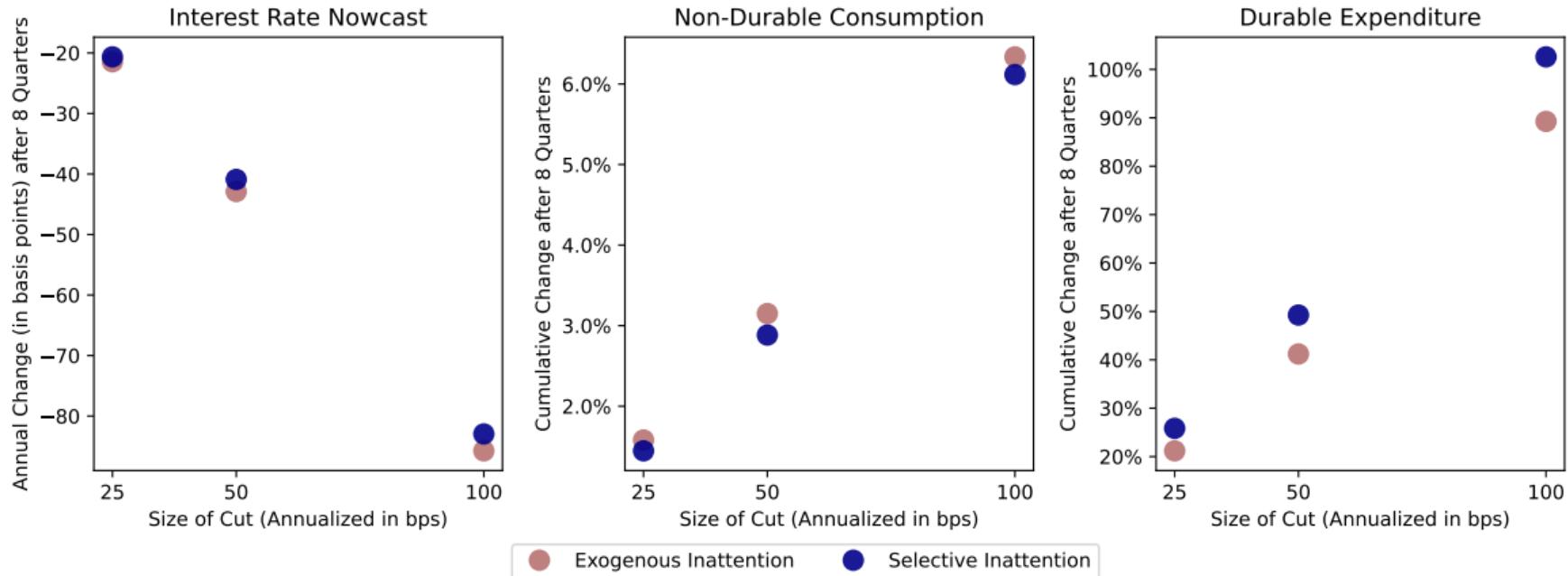
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NON-LINEAR IMPACT OF RATE CUTS: ON IMPACT



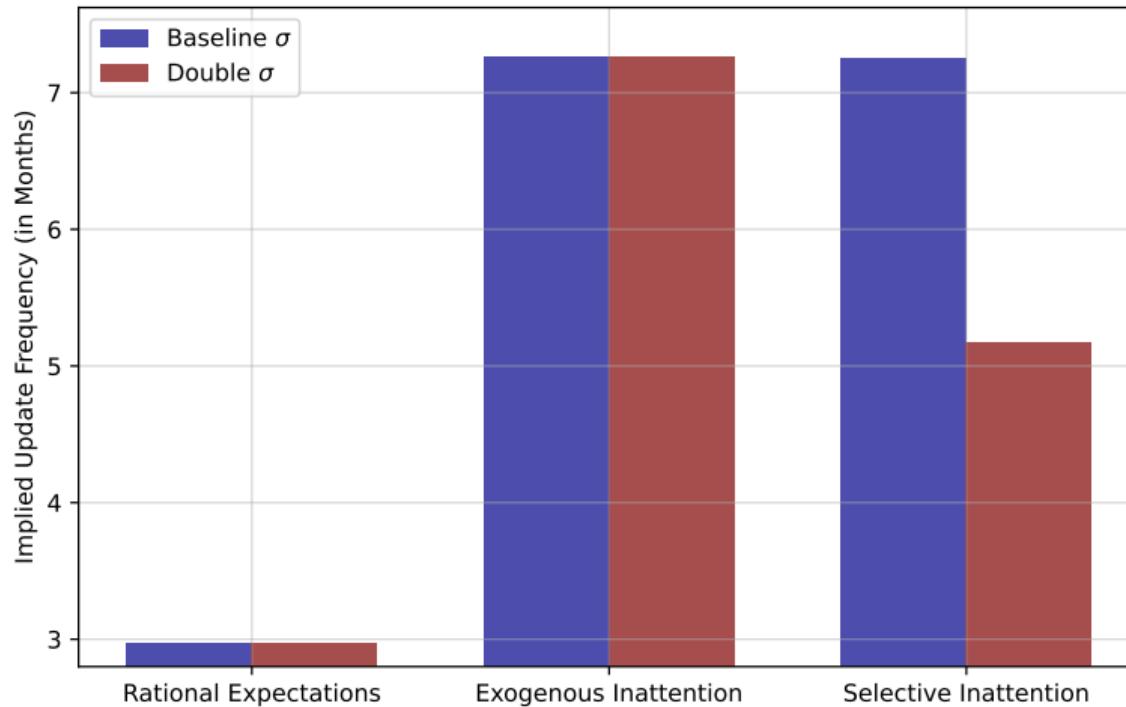
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NON-LINEAR IMPACT OF RATE CUTS: AFTER 8 QUARTERS



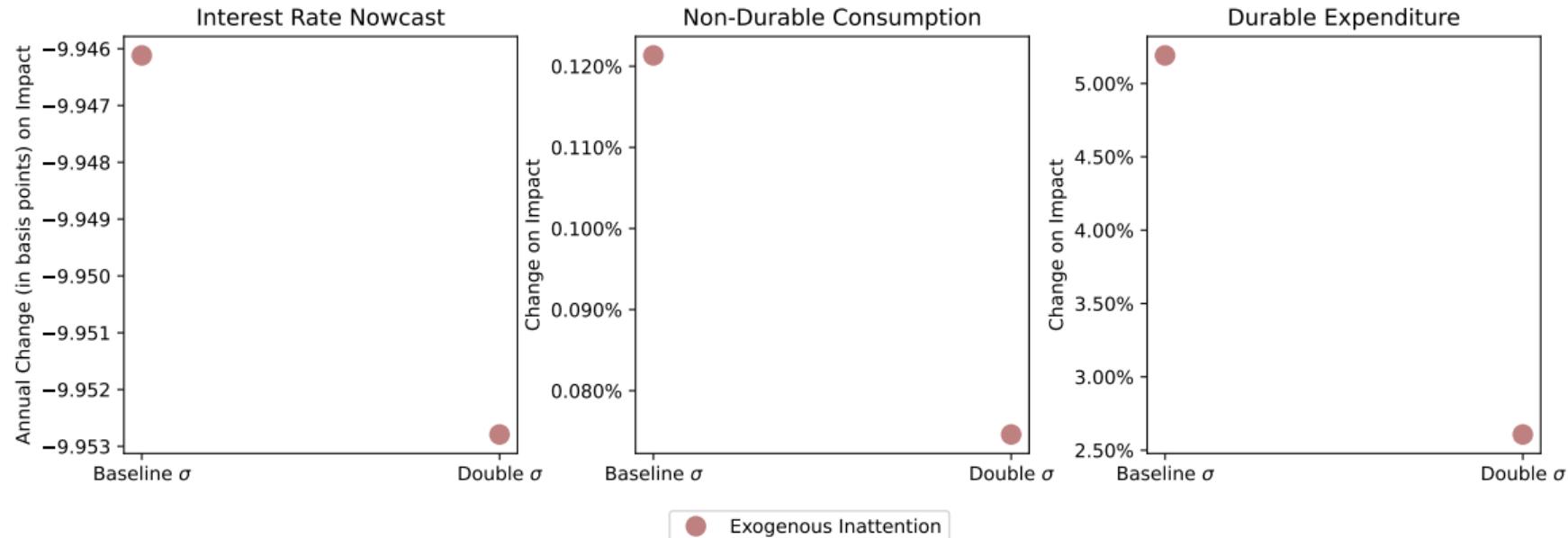
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EFFECTS OF INCREASE IN VOLATILITY ON BELIEFS



Increase in volatility \Rightarrow more information acquisition \Rightarrow **less** belief rigidity

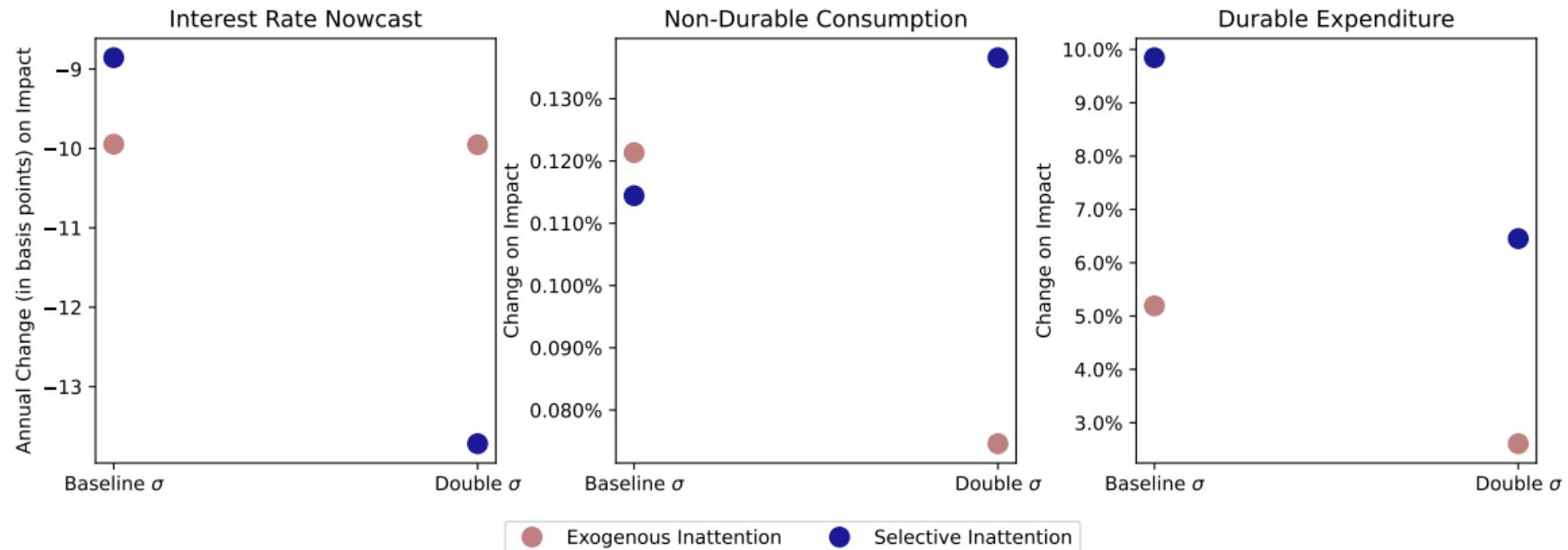
STATE-DEPENDENCE ON VOLATILITY: ON IMPACT



Increase in volatility \Rightarrow consumption is less responsive to interest rates

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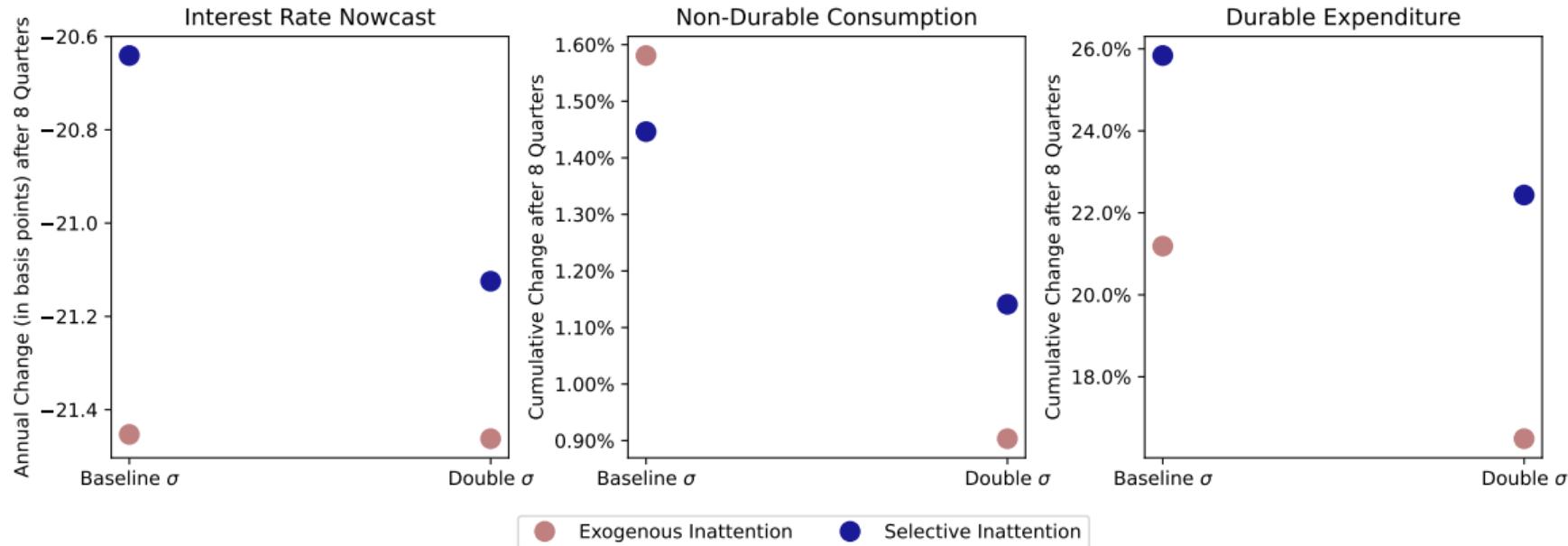
STATE-DEPENDENCE ON VOLATILITY: ON IMPACT



... but not with **selective inattention** because of increased info. acquisition!

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STATE-DEPENDENCE ON VOLATILITY: AFTER 8 QUARTERS



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