

# Discussion of “Spending Allocation Under Nominal Uncertainty: A Model of Effective Price Rigidity”

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- Timing Households:

- Households decide *where* to shop – locally from a monopolist or centrally in a competitive market (at a cost). Information:

$$p_{jt}, \theta_{jt} = \pi_t + v_{jt}$$

- Households choose *how much* to consume. Information:  $P_t$  (if they chose the competitive market)
- Households choose bonds and labor supply. Information:  $R_t, W_t$

- Two Types of Firms:

- Distant firms: perfect competition with technology  $Y_t = L_t$ . Information:  $\pi_t$ . Hence,  $P_t = W_t$

- Local firms: monopolist with technology  $Y_{jt} = z_{jt}L_{jt}$ . Information:  $z_{jt}, \vartheta_{jt} = \pi_t + u_{jt}$

- Monetary policy targets an AR(1) for inflation:

$$\ln \Pi_t = \chi \ln \Pi_{t-1} + \pi_t$$

# Main results

- Price set by a local firm:

$$p_{jt} = \frac{(\gamma + \lambda)(1 - \omega)}{(\gamma + \lambda)(1 - \omega) - 1} \frac{e^{E_{jt}[\ln W_t] + \frac{1}{2}V}}{z_{jt}}$$

- Firms respond strategically to households' confusion about the source of variation in local prices, resulting in higher markups.
- When consumers are less informed than firms, the model features positive comovement between output and inflation (for a large part of the parameter space).
- Reducing households' uncertainty through nominal stabilization or communication reduces markups.

- Formal analysis of the model +
- Intuition for the results +
- Empirical part +
- Too little discussion of model setup. What is the real-life counterpart of the distant firms? -

# Questions on model setup

- Assumption: firms
  - Local firms: positive markup
  - Distant firms: zero markup (i.e., lower and independent of policy)
- Assumption: initial condition, learning from prices
  - Households start at local firms, can switch to distant firms, and cannot switch back within period.
  - Learning from prices happens at local firms.
- Question: What is the real-life counterpart of these firms?
  - small retailer versus large retailer?
  - retailer in city versus retailer outside city?
  - traditional retailer versus online retailer?
- Question: Would a more symmetric model setup (consumer search) have similar implications?