Author's Accepted Manuscript

www.elsevier.com/locate/jedc

Attention Misallocation, Social Welfare and Policy Implications

Heng Chen, Yulei Luo, Guangyu Pei

PII: S0165-1889(15)00076-7
DOI: http://dx.doi.org/10.1016/j.jedc.2015.05.003
Reference: DYNCON3193

To appear in: *Journal of Economic Dynamics & Control*

Cite this article as: Heng Chen, Yulei Luo, Guangyu Pei, Attention Misallocation, Social Welfare and Policy Implications, *Journal of Economic Dynamics & Control,* http://dx.doi.org/10.1016/j.jedc.2015.05.003

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting galley proof before it is published in its final citable form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

Attention Misallocation, Social Welfare and Policy Implications *

HENG CHEN†
University of Hong Kong
YULEI LUO‡
University of Hong Kong
GUANGYU PEI§
University of Zurich

May 9, 2015

Abstract. We examine how agents allocate attention between private and public signals to reduce the uncertainty about observation noises when coordination is an important concern. In this setting, the attention allocation may not be monotone in endowed attention capacity. Agents may decrease their attention on or even ignore the more accurate signal when capacity increases. As a result, social welfare may decrease when they have more attention to process information. And it can be even higher when agents possess a finite amount of capacity than when they have an infinite amount of capacity. We derive sufficient and necessary conditions under which multiple equilibria emerge and study the implications of equilibrium multiplicity for macroeconomic policies.

Keywords. Coordination game, social welfare, rational inattention

JEL Classification. C72, D60, E58

*†Chen: Corresponding author, hengchen@hku.hk, Tel: 00852-28578506, K.K. Leung Building, The University of Hong Kong, Pokfulam Road, Hong Kong; ‡Luo:yluo@econ.hku.hk, K.K. Leung Building, The University of Hong Kong, Pokfulam Road, Hong Kong; and §Pei:guangyu.pei@uzh.ch; Schonberggasse 1, CH-8001 Zurich. We thank George-Marios Angeletos, Melody Lo, Jun Nie, Alessandro Pavan, Wing Suen, and Satoru Takahashi. We also thank seminar participants at Second Conference on Rational Inattention and Related Theories and 19th International Conference of Computing in Economics and Finance for their helpful comments. Luo thanks the Hong Kong General Research Fund (#HKU791913) for financial support.

Accepted manuscript

Download English Version:

https://daneshyari.com/en/article/5098265

Download Persian Version:

https://daneshyari.com/article/5098265

Daneshyari.com