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# Endogenous Information Acquisition and Countercyclical Uncertainty*

Jess Benhabib† Xuewen Liu‡ Pengfei Wang§

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**Abstract**

We introduce endogenous information acquisition into an otherwise standard business cycle model. In our framework information is a productive input, which is essentially specialized labor, so information acquisition is linked to the labor market and thereby to macroeconomic conditions. We show that when firms acquire information optimally, information acquisition is endogenously procyclical, and therefore economic uncertainty faced by the firms is countercyclical. Two-way feedback exists between economic uncertainty and macroeconomic activities, resulting in an amplification effect of TFP shocks, and possibly generating multiple equilibria. Our basic model can also be extended to explain countercyclical aggregate volatility. On the theoretical side, our model demonstrates that strategic complementarity (substitutability) in information acquisition coincides with strategic complementarity (substitutability) in production, and that reducing uncertainty through information acquisition improves resource allocation.

*Keywords*: Information acquisition, Countercyclical uncertainty, Resource misallocation.

*JEL codes*: E30, E44, G01

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