Multi-Sector Menu Cost Model, Decreasing Hazard, and Phillips Curve [†]

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Current Version: July, 2007
First Version: February, 2007

Abstract

This paper generalizes the Golosov-Lucas model (GL model), a single sector menu cost model with idiosyncratic productivity shocks, to multi-sector setting. While the GL model matches some empirical facts, it cannot mimic decreasing hazard functions for price changes, which are observed in many countries. With realistic parameters, the simulation results of the generalized GL model show many features observed in empirical evidences such as decreasing hazard rates. In addition, the simulation results with monetary shocks show flattening of the Phillips curve in a low inflation environment.

Keywords: Menu Cost Models, Hazard Functions, Phillips Curve
JEL Classification: E30

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