



You are cordially invited to

UCLouvain Economics Seminar

On **Thursday March 16, 2017**, from **12:45 to 14:00**
Doyen 22, Place des Doyens, 1

Céline Poilly

(Aix-Marseille University (Aix-Marseille School of Economics))

Will give a presentation on

Do Misperceptions about Demand Matter? Theory and Evidence

Abstract:

In this paper, we assess theoretically and empirically the consequences of demand misperceptions. To this end, we develop a New Keynesian model with dispersed information where agents receive noisy signals on both supply and demand. Firms and consumers have an asymmetric access to information, so aggregate misperceptions of demand by the supply side can drive economic fluctuations, as well as aggregate misperceptions of supply by the demand side. We use the model's predictions to identify fundamental shocks on supply and demand and their corresponding noise shocks in the data. Our identification methodology exploits the nowcast errors on both GDP growth and inflation, using the fact that fundamental and noise shocks affect the errors with opposite signs. We show that demand-related noise shocks have a negative effect on output and contribute substantially to business cycles. Both the theory and the data suggest that monetary policy plays a key role in the transmission of demand noise.

(joint with Kenza Benhima)