CENTRO DE ECONOMÍA APLICADA

Abstract

We explore the impact of monetary policy on the real economy in a model of rational Inattention that takes into account the multi-product nature of firms. The real impact of monetary policy is much lower than under the standard assumption that firms produce only one good. This result is due to economies of scope in information processing: As firms produce more goods, the return to gathering information on common monetary, rather than good-specific, shocks increases. When we calibrate our multi-product firm model to US CPI data, we find that monetary policy has minimal real effects. Calibrating our model to PPI data, in which firms price a much smaller number of goods, suggests only modest non-neutrality.