“MACROECONOMIC STABILITY AND HETEROGENEOUS EXPECTATIONS”

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Abstract: The recent macroeconomic literature has been stressing the role of heterogeneous expectations in the formulation of monetary policy and recent laboratory experiments provided more evidence about this phenomenon.
We use a simple model made up by the standard aggregate demand function, the New Keynesian Phillips curve and a Taylor rule to deal with di event issues, such as the stabilizing effect of different monetary policies in a system populated by heterogeneous agents. The dynamical properties of the system depends crucially on the set of forecasting rules, on agent sensitivity in choosing the best predictor and on Central Bank's reaction to inflation. In particular we investigate whether the policy makers can sharpen macroeconomic stability in the presence of heterogeneous expectations about future inflation and output gap and how this framework is able to reduce volatility and distortion in the whole system.