Micro-Macro Moments: Time- vs. State-Dependent Pricing

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Abstract

We propose a new methodology to discriminate among models that uses both micro and macro moments to discipline model choice. The key insight lies in using macro moments conditional on micro moments to discipline the response of the main variable of interest following a key policy shock. Some of the micro moments may be su cient statistics. In an application to discriminate among leading price-setting models, Calvo and menu cost, we show that both Calvo and menu cost models match key micro price moments. However, only Calvo replicates the irrelevance of kurtosis for monetary non-neutrality following a monetary policy shock. Our menu cost model can match the irrelevance of kurtosis, but at the cost of missing key micro price moments.