Modelling of rational inattention in economics

The research focuses on the implications of rational inattention to economic decisions of individuals and companies. Models of rational inattention focus on situations where it is costly for individuals to collect relevant information about a certain problem and rationally limit the amount of information they receive. Filip Matějka, for example, studied the issue of price dynamics of a monopolist when it is costly for the monopolist to collect information about the demand for their product. The model is able to replicate a wide range of facts observed in reality, for example, that prices vary between several fixed values, or that persistent shocks in prices are manifested with a delay. Matějka also studied the problem of discrete choice, when individuals can choose from a limited number of options (such as investments) and the detection of revenues is costly. Michal Bauer and Filip Matějka study rational inattention empirically. Specifically, they study how information on the ethnic origins of tenants or applicants for a job affect the amount of information the other side finds out about them.

Selected outputs