

# Information frictions: Learning and Inattention in an Estimated New Keynesian Model

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## Abstract

This paper considers a model with informational frictions and sticky prices in which agents form subjective expectations using an economic model and possibly out-of-date information. The proposed expectation formation mechanism is estimated via Bayesian methods and tested against rational expectations. The paper yields three novel results. First, the data strongly prefers the model embedding inattention à la Mankiw and Reis (2002) and subjective expectations under adaptive learning. Secondly, the degree of sticky information is susceptible to how the expectation formation process is modeled. In particular, the level of inattention is reduced considerably when I depart from the rational expectation assumption. Finally, this result remains unchanged when tested using real-time macroeconomic series and expectations data from the U.S. Survey of Professional Forecasters.

**JEL classification:** *E31, E32, E52, E58, E70, D84.*

**Keywords:** Adaptive learning, Constant gain learning, Inattentive agents, Information frictions, Subjective expectations, Survey data, Survey of Professional Forecasters, Bayesian estimation.