Discussion of

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Price Selection

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ECB

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- Calvo (1983): no selection - random, which prices change
- State-dependent menu-cost models: can have high selection Caplin and Spulber (1987); Golosov and Lucas (2007) - those prices adjust that are far from their optimum

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- Can be as important as *how many* prices change (see e.g. Caplin and Spulber, 1987)

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- Selection at sectoral level, mixed results at aggregate level (yes in UK, no in Canada, US)
- Multi-sector menu cost model lowers aggregate selection
- More flexible (low selection) sectors get over-weighted

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  - It is ultimately an empirical question.
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- Empirical tour-de-force: uses three different datasets.
- Also uses a model to show that selection and non-neutrality are closely linked, and multi-sector model goes in the right direction

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- Theoretical
  - The ultimate question is aggregate selection.
  - What can sectoral selection add to it?

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- In a model with continuum of firms, selection and monetary non-neutrality related

Results

Level of aggregation	Number of groups	Regular prices, excluding subs
A. U.K.		
Stratum	8941	-0.371***
		(0.002)
Category	1037	-0.385***
		(0.006)
Basic class	66	-0.361***
		(0.016)
Aggregate	**1**	**-0.197*** **
		(0.072)
B. Canada		
Stratum	9165	-0.285***
		(0.003)
Aggregate	**1**	**-0.003**
		(0.021)

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  - Those prices change that happen to be low
  - p_{st}^{pre} is low, DP_{st} is high, measured selection high
  - DP_{st} might not be driven by aggregate shocks

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  - At the category level (66): 250 (mean: 492) Coicop
  - In the aggregate level: 10105 (mean: 10642)
  - With lumpy adjustment, large idiosyncratic shocks, small aggregate shocks: even 250 can be a small sample (Berger, Caballero and Engel, 2017)

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  - Use a model (e.g. CalvoPlus) to simulate price changes
  - Replicate the small sample multiple times
  - Measure the reduced-form selection
  - See what the empirical measure implies for the level of non-neutrality in the model

Selection at the sectoral level

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- Two motivations
  - Additional moments to match
  - Informative about frictions that matter for the aggregate + more variation
- Multi-section menu cost model:
  - To match both sectoral and aggregate moments
  - Sectoral selection informative about frictions that influence aggregate selection

Alternative frameworks

- Rational inattention (Mackowiak and Wiederholt, 2009)
  - Can be optimal to concentrate on idiosyncratic/sectoral shocks (larger) and ignore aggregate shocks
  - Selection at the idiosyncratic/sectoral level will not be informative for the aggregate

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  - Selection at the idiosyncratic/sectoral level will not be informative for the aggregate
- Strategic complementarities (Carvalho, 2006; Woodford, 2011; Nakamura and Steinsson, 2010)
  - Macro complementarities (e.g. intermediate inputs) can generate non-neutrality
  - With idiosyncratic/sectoral selection still high

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Selection at the sectoral level, cont.

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- Sectoral heterogeneity goes in the right direction
- But other mechanisms (e.g. rational inattention, strategic complementarities) might be more relevant
- Less informativeness of sectoral selection for aggregate selection

Conclusion

- Great work
  - Asks a very relevant question
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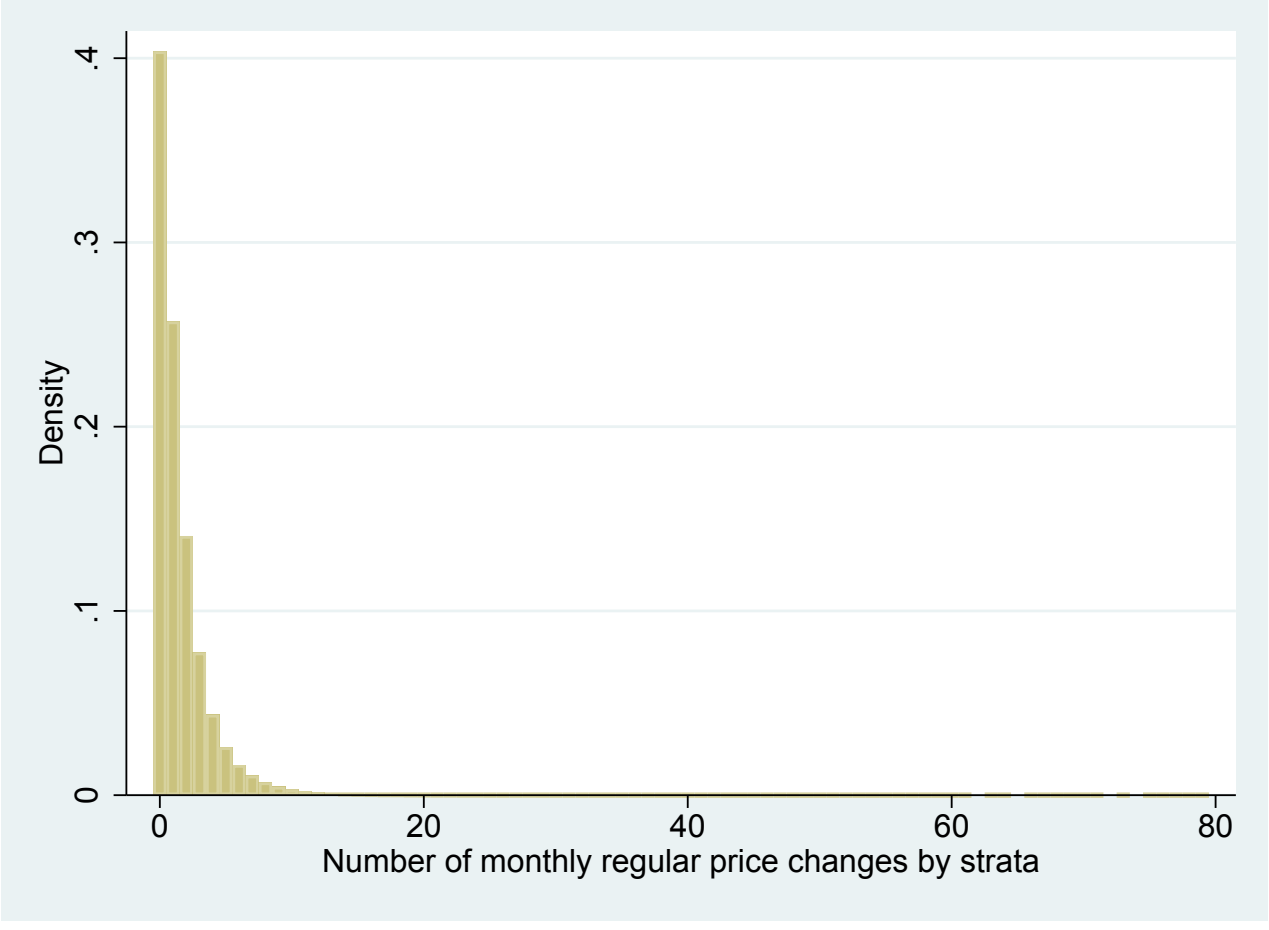
  - Arrives at interesting results
- Comments
  - Control for small sample bias
  - Clarify the importance of sectoral selection

Histogram of monthly regular price changes by stratum



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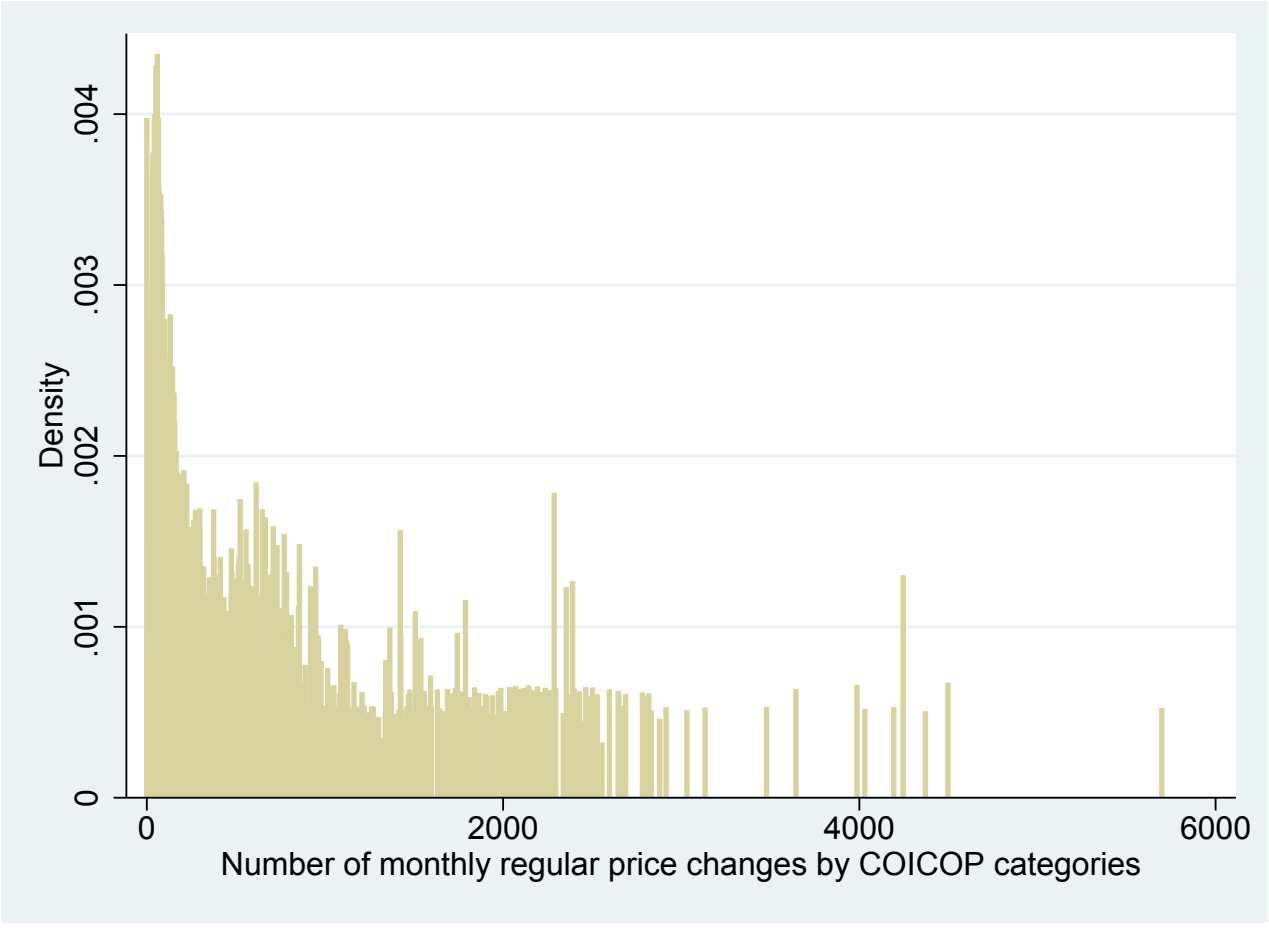
Histogram of monthly regular price changes by categories



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