

SOCIAL CHOICE AND TIME CONSISTENCY WITH LOW-PROBABILITY EVENTS

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MACROECONOMIC DYNAMICS

Volumen: 21

Número: 7

Páginas: 1706-1711

DOI: 10.1017/S1365100515001030

Fecha de publicación: OCT 2017

Tipo de documento: Article

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Resumen

A key result in macroeconomics is the "time inconsistency of short-run optimal plans." It is argued that inflationary bias results if central bankers do not precommit to a monetary policy rule. The macro literature, however, does not address the way in which board members arrive at the "optimal choice of inflation rate." That is a matter of a micro subfield called social choice. If we consider that on any board, members have different priors about the states of nature for the economy, but they all receive the same signal before deciding, then they will have different posterior probabilities for the states, even if they have many data, if one state has a low probability of occurring, such as an unlikely catastrophic-risk event. Thus, it is not clear what the optimal plan is. Therefore, discretion rather than rules may be the optimal plan in social choice settings.

Palabras clave

Palabras clave de autor: [Social Choice](#); [Time Consistency](#); [Low-Probability Event](#)

KeyWords Plus: [INFLATION](#)

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Editorial

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USA

Información de la revista

- **Impact Factor:** [Journal Citation Reports](#)

Categorías / Clasificación

Áreas de investigación:Business & Economics

Categorías de Web of Science:Economics

Información del documento

Idioma:English

Número de acceso: [WOS:000413667000006](#)

ISSN: 1365-1005

eISSN: 1469-8056