UNIVERSIDAD DE GRANADA

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Título: Myopic households on a stable path

Sala: E28

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Abstract: The neoclassical growth model is extended to include limitations in the forecasting capability of a rational individual, who is able to predict the future state of the economy only for a short time horizon. Long time prediction is formulated according to uninformed expectations, which rely only on myopic information about the short run dynamics, for example assuming future persistent growth rate. Steady state results are obtained in the case of iso-elastic utility and Cobb-Douglas technology. The model, characterized by forecasting errors and subsequent corrections, exhibits global stability and has important implications on welfare and policy.

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