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Sticky prices versus sticky information: Does it matter for policy paradoxes?

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ABSTRACT

This paper shows that government spending multiplier at the zero lower bound (ZLB) is larger under sticky information than under sticky prices. Similarly, well known paradoxes, e.g., the paradox of toil and the paradox of flexibility become more severe under sticky information. These results depend crucially on the duration of the fiscal policy stimulus relative to the fundamental shock in the economy. Such policy coordination is all the more important in the sticky information framework.

KEYWORDS Zero lower bound; Fiscal policy multiplier; Interest rate peg

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