

# Nominal threshold prices, microeconomic and aggregate price stickiness

*Extended Abstract*

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Sticky prices caused by price adjustment costs are typically viewed as key to understanding why monetary disturbances can lead to real fluctuations. Since the seminal paper by [Bils and Klenow \(2004\)](#), the availability of new evidence on individual prices has triggered a fertile literature that assesses the ability of traditional models of price stickiness to match not only aggregate macroeconomic data but also the microeconomic evidence on price setting as documented by [Nakamura and Steinsson \(2008\)](#) or [Klenow and Kryvtsov \(2008\)](#).

In this paper, we explore an alternative explanation for the observed stickiness of individual prices: nominal threshold prices. While empirical works of [Blinder et al. \(1998\)](#), [Dhyne et al. \(2006\)](#) or [Levy et al. \(2011\)](#) provide growing evidence on the importance of nominal threshold prices, also known as psychological pricing points, there is so far no macroeconomic model with microeconomic foundations that describes how threshold prices enter the firms' price setting problem and that can explain the consequences of threshold prices for the behavior of individual prices and macroeconomic aggregates.

More specifically, we develop a simple price-setting mechanism based on exogenous nominal threshold prices and use it to replace the traditional mechanism based on costly price adjustment in a conventional New Keynesian framework. Relying on the Dominick's Finer Foods database of scanner price data, we show that the existence of threshold prices can explain several features of the microeconomic price data at least as well as price-adjustment costs. On the other hand, our model predicts that monetary disturbances have no effects on aggregate real variables like output, a result consistent with [Caplin and Spulber \(1987\)](#), [Caballero and Engel \(2007\)](#) or [Golosov and Lucas \(2007\)](#).

Hence our tentative conclusion is that price-stickiness may be less relevant for understanding the relationship between nominal disturbances and real fluctuations than previously thought. As a consequence, it might be advisable to reconsider

alternative approaches like models based on sticky information (see [Mankiw and Reis \(2002\)](#)).

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