

GIUSEPPE CICCARONE

Sapienza University of Rome, Italy

**RECENT DEVELOPMENTS IN BEHAVIORAL ECONOMICS:
MACROECONOMICS AND GENERAL EQUILIBRIUM****Abstract:**

The speech will first recall the main theoretical differences between expected utility and prospect theory (PT). Second, it will review the empirical evidence supporting PT and its main applications in economics, regarding especially financial decisions (e.g., solution to asset pricing puzzles; extension of the consumption-based asset pricing model - CAPM), the real estate market, inattention, and the explanation of labor supply elasticities and of money illusion. Third, the speech will present the employment of PT to study wage bargaining. Fourth, it will discuss the more recent use of PT in general equilibrium models under perfect competition, showing its effects on potential output and output volatility. Fifth, it will show the consequences of loss aversion on equilibrium employment, potential output and price rigidity in a general equilibrium model with monopolistic competition in good market and real wage rigidities due to (right to manage or efficient) wage bargaining, or efficiency wages. The speech will conclude with the description of an overlapping generations model with PT and under imperfect communication/information modelled through pair-wise labor market matching between producers and workers. In this environment, financial variability affects the choices of consumers/savers and imperfect information/communication can create sentiment-driven fluctuations, while a novel mechanism explains the transmission of volatility from monetary/financial markets to real macroeconomic variables.

Keywords:

behavioral economics, macroeconomics, general equilibrium