

Report on (S,s) Pricing by Zakaria Babutsidze

This paper was written some time ago. I think it was originally written as an elaboration/extension of Caballero's 1992 paper. The author updated this and that, so there are actually references up to 2005, for example Klenow and Kryvtsov, 2005. That paper appeared in QJE in 2008; the paper is important enough for anyone active in the area to be aware of that. This tells me that the paper has not been looked at for 5 years! Or maybe more: Kashyap's (1995) QJE paper is cited as 1991 FED version.

It gets worse than that. Not all literature has been updated. The paper addresses several areas; in some, if we are to believe the author, nothing important appeared in the last 10 years - see page 16, for example. How bad is it? On p. 16 there is one reference from 2004 (a FED paper). Assume I have no idea about the area but would like to cover up the fact that the paper was written long ago. 10 seconds of effort produces "State-dependent Pricing and Business Cycle Asymmetries", Devereux and Siu, *International Economic Review*, (2007), 47, 281-310. Another minute of reading the abstract and I realize it is relevant and should be included. Since the author did not go through this, it means that he does not treat the submission seriously. By the way, anyone who knows a little about the area would know the Devereux/Siu paper and include it: it is too relevant and important to miss.

Another example: The main empirical fact the author needs – the different frequencies in the size and frequency of price changes, has been summarized for European countries by Dhyne *et al* (2006). Instead the author cites some earlier studies.

Submitting a paper that spent several years in the drawer without as much as updating the literature shows complete disregard for Economics E-Journal.

This problem is fixable, of course. But I doubt if the paper itself is.

The paper makes an assumption about costs of adjustment (that they are asymmetric). It then derives the distribution of relative prices (triangular). Then it makes an arbitrary assumption about what it should look like (left tail of the triangle twice shorter than right tail). And then does some simulations.

They do not come out well. Asymmetry in the effects of positive and negative shocks is really imposed by assumptions. The motivation is empirical, but the resulting asymmetry is smaller than documented in empirical studies (see Table 1). The author admits this (last paragraph on p. 17) but then amazingly says – no problem, we can change a few parameters to fit the data. Well, this was the approach long time ago. Nowadays, parameters have to come from the data. The author seems to think that the goal is to produce an artificial economy that generates results similar to actual economies, but all parameters in the artificial economy are free to change. That is reason enough to reject the paper.

But it gets worse. The author actually does not even try to find parameters that would generate the results he wants! This is not only outdated economics, but not serious economics.

The lack of effort is everywhere in the paper. There is no check of robustness of the results. There are broad statements (for example “unlike most similar papers” second last paragraph on p. 10). By the way this statement is not correct, what is done here is standard.

A few additional points:

- misleading terminology. For example, last sentence of abstract: agent heterogeneity means here that all firms are the same, they just change prices at different moments of time. That is not what most people mean by heterogeneity.

- misleading/incorrect statements: last sentence second paragraph on p. 5. This is simply wrong. There are many recent studies that point out to surprisingly small difference between the frequency of price increases and decreases, and contribute the small difference to inflation. In the paper there is no inflation; shocks are symmetric. Many people active in the literature would presume that without a trend in the aggregate price level, the asymmetry would disappear

- some terminology is non-standard. What is “positive drift in inflation” (top of page 7)? The number given (2%) cannot be squared with the period (1982-1996)

- first equation on p. 10 is incorrect

- it is good practice to use the spellchecker

- in notes to table 1, “first raw” should be replaced with “first row”; sometimes spellchecker would not help.

- the title is unclear; it cannot be understood without reading the paper.