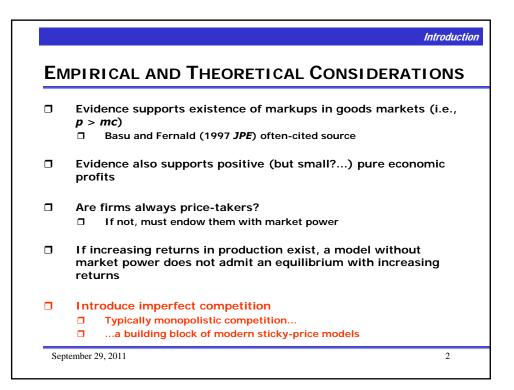
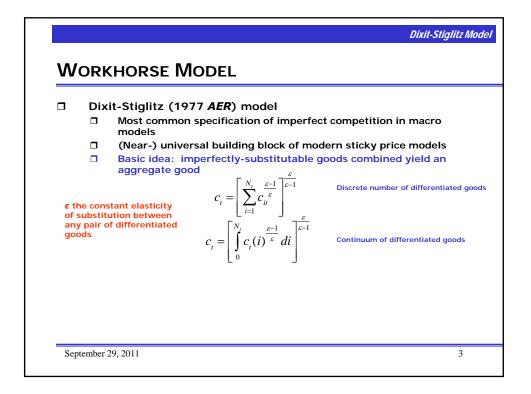
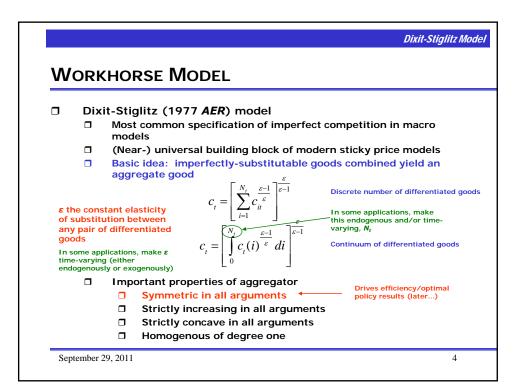
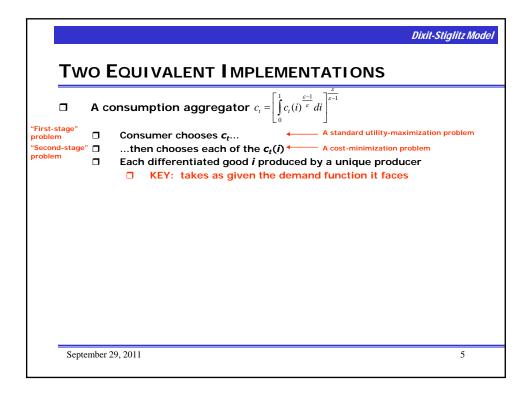
MONOPOLISTIC COMPETITION IN A DSGE MODEL: PART I

SEPTEMBER 29, 2011

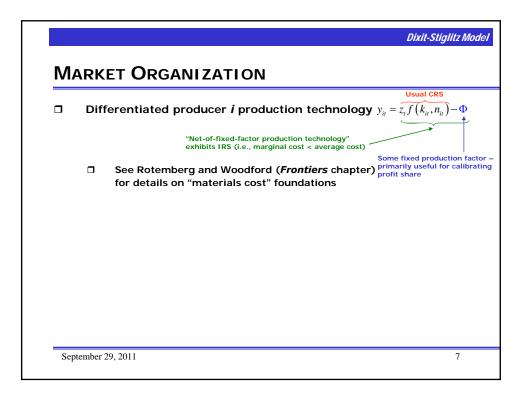








	A c	onsumption aggregator $c_i = \left[\int_{0}^{1} c_i(i)^{\frac{s-1}{s}} di\right]^{\frac{s}{s-1}}$ DS MODEL I
stage" n		Consumer chooses <i>c</i> _t A standard utility-maximization problem
nd-stage' m	□	then chooses each of the $c_t(i)$ A cost-minimization problem
		Each differentiated good <i>i</i> produced by a unique producer
		□ KEY: takes as given the demand function it faces
	Ар	roduction aggregator $y_t = \left[\int_{0}^{1} y_t(i)^{\frac{s-1}{s}} di\right]^{\frac{s}{s-1}}$ DS MODEL II
		Final-goods producer chooses $y_t(i)$
		to sell a composite final good y_t to consumers
		Each differentiated good <i>i</i> produced by a unique intermediate-goods producer
		KEY: takes as given the demand function it faces



МЛ	ARKET ORGANIZATION	
	Differentiated producer <i>i</i> production technology $y_{ii} = \overline{z_i f(k_{ii}, n_{ii})} - \Phi$	
	"Net-of-fixed-factor production technology" exhibits IRS (i.e., marginal cost < average cost)	
	Some fixed production factor of the primarily useful for calibration of the primarily useful for calibration of the primarily useful for calibration of the primarily control of the primarily useful for calibration of the primarily control of the	
	Differentiated producer <i>i</i> hires inputs on perfectly-competitive markets	
	and sells its output on its own <i>monopolistically-competitive</i> market	
	Sells "directly" to consumers DS MODEL I	
	or to final-goods firms DS MODEL II	
	Common assumption: $\boldsymbol{\phi} = 0 ~(\rightarrow mc = ac assuming CRS)$	

