

Erratum for:
Monetary Non-Neutrality in a Multi-Sector
Menu Cost Model

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This note corrects two errors in our 2010 paper:

1. There was an error in the `CalculateGradInd.m` function which was used to calculate the equilibrium in our model. This error turns out not to have any material consequences for the results in the paper. To illustrate this, we reproduce Table VI from our paper with the corrected code below. Table VI is the table of the paper that demonstrates our main result.

In order to do this reproduction, we must recalibrate the model to match the statistics in Table II of the paper. The combination of fixing the error and recalibrating the model implies that all the numbers in the table change by small amounts. These small differences are mostly due to the recalibration rather than the error being fixed.

Recall that the main results we stress for this table are: 1) the multi-sector model generates substantially more monetary non-neutrality than the single sector model when the single sector model is calibrated to match the mean frequency of price change; and 2) the multi-sector model generates monetary non-neutrality that is similar in magnitude to the single sector model when the single sector model is calibrated to match the median frequency of price change. These results are not affected by the small differences between the new version of the table and the original version.

While this error does not materially affect the results of our paper, it can materially affect the behavior of the model when the model is applied to answer other questions. We found this

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error while working on [Nakamura et al. \(2018\)](#). When the model is applied to the questions posed in that paper, this error matters for the results.

Table VI: Heterogeneity and Monetary Non-neutrality (Revised)

	Menu cost model		CalvoPlus model	
	$sm = 0$	$sm = 0.7$	$sm = 0$	$sm = 0.7$
Monetary non-neutrality: $V(C_t)$				
One-sector Model (mean)	0.060	0.171	0.151	0.379
Six-sector Model	0.136	0.457	0.412	1.290
Nine-sector Model	0.159	0.497	0.461	1.472
Fourteen-sector Model	0.185	0.685	0.462	1.574
One-sector Model (median)	0.265	0.653	0.570	1.529

- The second error is that the middle two columns of Table IX of the paper (CalvoPlus subs.) were wrong in the published version. This was simply a typographical error. We input results for the wrong case into the table.

We reproduce Table IX of the paper below correcting this error. Again, all the numbers in the table change by small amounts due to the error discussed above and the resulting recalibration. But then the middle two columns change more substantially because the results for those columns in the paper were wrong.

The new results actually line up with the discussion in the paper since the discussion in the paper was referring to the correct results as opposed to those that we mistakenly put in the table. This version of the table shows that price changes associated with substitutions yield much less of a reduction in monetary non-neutrality when the timing of these price changes is assumed not to be chosen optimally that they do when they are assumed to be chosen optimally.

Table IX: Multisector Models with Product Flexibility (Revised)

	Menu cost		CalvoPlus subs.		Menu cost subs.	
	$sm = 0$	$sm = 0.7$	$sm = 0$	$sm = 0.7$	$sm = 0$	$sm = 0.7$
Monetary non-neutrality: $V(C_t)$						
One-sector model (mean)	0.0597	0.1713	0.051	0.1534	0.0471	0.1598
Six-sector model	0.1361	0.4570	0.1329	0.4331	0.0848	0.3223
Nine-sector model	0.1594	0.4968	0.1399	0.4670	0.0999	0.3789
Fourteen-sector model	0.1850	0.6853	0.1471	0.6638	0.1031	0.4051

We have posted revised code that produces these results on our websites. This code contains the calibration of each case reported in Table VI above.

References

NAKAMURA, E., J. STEINSSON, P. SUN, AND D. VILLAR (2018): “The Elusive Costs of Inflation: Price Dispersion during the U.S. Great Inflation,” *Quarterly Journal of Economics*, 133, 1933–1980.