How Much Rationality Does the Model Assume?

Pascal Michaillat
https://pascalmichaillat.org/c2/

How much rationality do we assume in the model of pla ch:

- Households maximize utility subject to budget constraint → households <u>do the best they</u> can given their income / wealth.

- Households take as given & therefore anticipate the price of services → prices <u>follow price norms</u> that are by definition understood & followed by everybody

- Households take as given market tightness & therefore anticipate correct market tightness → <u>a lot of rationality required w/</u> heterogeneous agents → can introduce statistical agency instead.

↳ If <u>government announces tightness x,</u> and households max. utility given x, then x will be realized

→ | statistical agency
    government provides <u>correct forecast</u>
    (which is their objective)

↳ households do best they can b/c they use correct x.