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Macroeconomic dynamics

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Modeling expectations is at the heart of modeling macroeconomic dynamics. The past decades of macroeconomic research have been dominated by so-called unique rational expectations equilibrium models. Recently, this class of models has been called into question for two reasons. Firstly, experimental evidence suggests that, for a broad class of models, agents fail to coordinate on unique rational expectations equilibria. Secondly, we see ourselves confronted with phenomena as house price bubbles, financial crises, and stock market price crashes, which are hard to reconcile with the unique rational expectations paradigm. Several alternative modeling approaches are therefore presented and discussed.