

• Huo & Ros-Rull (2020) critique of
New Keynesian models w/ Calvo pricing.

- product market. sometimes $MC < MC$

→ negative joint surplus

→ firm & customer better off by not trading

- labor market, sometimes $MPL < MRS$

→ negative joint surplus

→ firm & workers better off by not trading

⇒ many Pareto improvements that
are not implemented

Conclusion: in standard models of price/wage
rigidity, bilateral inefficiencies occur
→ problematic