

## The Economics of Inaction: Stochastic Control Models with Fixed Costs

By Nancy L. Stokey



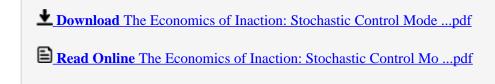
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In economic situations where action entails a fixed cost, inaction is the norm. Action is taken infrequently, and adjustments are large when they occur. Interest in economic models that exhibit "lumpy" behavior of this kind has exploded in recent years, spurred by growing evidence that it is typical in many important economic decisions, including price setting, investment, hiring, durable goods purchases, and portfolio management.

In *The Economics of Inaction*, leading economist Nancy Stokey shows how the tools of stochastic control can be applied to dynamic problems of decision making under uncertainty when fixed costs are present. Stokey provides a self-contained, rigorous, and clear treatment of two types of models, impulse and instantaneous control. She presents the relevant results about Brownian motion and other diffusion processes, develops methods for analyzing each type of problem, and discusses applications to price setting, investment, and durable goods purchases.

This authoritative book will be essential reading for graduate students and researchers in macroeconomics.



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#### Review

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From the Back Cover

"Fixed adjustment costs are pervasive in economic modeling and until this book there was no place where the needed tools were developed in a way that was accessible to a broad group of economists. Now there is. This brilliantly lucid book is self-contained, first developing the mathematical preliminaries and then using the tools in a number of illustrative economic applications. I advise economists to add this book to their bookshelf."--Edward C. Prescott, Nobel Laureate in Economics

"Stochastic control problems arise everywhere in modern economics. *The Economics of Inaction* gives a wonderful treatment for students and practitioners alike. It is rigorous yet clear, concise yet thorough. Inaction would not be the optimal decision about this book: read it now!"--Avinash Dixit, Princeton University

"Nancy Stokey has given us a clear, elegant, and rigorous distillation of why and how we should delay action until the status of a decision problem changes enough. By combining the mathematical apparatus with a wealth of applications to production, macroeconomics, and other fields, this book immediately becomes the definitive treatment. It will be the stepping stone into the subject for almost every interested researcher."-
Darrell Duffie, Graduate School of Business, Stanford University

#### About the Author

Nancy L. Stokey is the Frederick Henry Prince Professor of Economics at the University of Chicago. She is the author, with Robert Lucas and Edward Prescott, of "Recursive Methods in Economic Dynamics".

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