

## **Future Research Agenda:**

**Political Economy:** Marcos Chamon and I intend to write a second paper on costly voting. We have already found that even within congressional districts, the precincts least likely to turn out for elections are those with the highest percentage of registered republicans and highest percentage of registered democrats. We will argue that this can be easily understood from a costly voting model where each voter chooses her preferred candidate and then compares the utility of voting for her preferred candidate with the cost of voting. When costs of voting are high, policy converges to the mode voter's most preferred policy, not the median voter's most preferred policy. Also, costly voting models display instability which median voter models do not. Small changes in the distribution of preferences can lead to large changes in party platforms as well as equilibrium policy implemented.

I am also interested in understanding more about why parties exist and how many will exist as a function of political institutions (such as voting rules). This also can be combined with my recent work on interest group politics. I have a conjecture that special interests influence policy more through party creation in proportional representation systems and more through interest group formation in systems.

**International Finance:** Though I have many interests in international finance (such as working on a theory of why developing countries denominate their foreign debt in foreign currency – with Marcos Chamon), I have a research agenda related to heterogeneity of beliefs in asset markets. First, I would like to write a follow-up paper where I add a real side to the economy and try to explain: (1.) macro-disconnect from fundamentals, (2.) imperfect pass-through, and (3.) real-side dynamics such as J-curves. I would like to reformulate new open economy macroeconomics in a heterogeneous belief environment. Then, I would like to look at international financial policy, taking into account heterogeneity of beliefs. Different from most learning models, there is a coordination failure with higher order beliefs. Everyone may know the true level of a shock but may not know that others know; in such an environment, risk-averse investors may be unwilling to shift their portfolios sufficiently due to risk aversion. The government, having the same information, may be able to coordinate expectations through monetary policy in a dirty float or may be able to overcome coordination failure by fixing the exchange rate. I would like to look into the implications of heterogeneity of beliefs for international financial policy including exchange rate regime but also including exchange taxes and exchange controls. In the long run, I would like to try to reformulate the equilibrium theory of the firm where instead of knowing the true demand curve for its products, a firm has beliefs about the demand curve as well as beliefs about other firms' beliefs. I think I can use this framework to show how firms may set both prices and quantities and how equilibrium unemployment may emerge. If this is successful, obviously, I would like to use it to investigate international monetary and fiscal policy, looking at impacts upon actual unemployment as opposed to employment declines (something which has been impossible thus far). Lastly, I would also like to try to use a heterogeneous beliefs framework to explain how bubbles can arise from positive production shocks, leading in the short run to growth and the long-run to crashes.