

Abstract

A great amount of available information over the internet makes it impossible for anyone to process it all. In this thesis, we use the rational inattention theory to see how the perceived signals about the exogenous variables would change under different levels of information capacity. Those signals are then applied in the New Keynesian model and corresponding impulse responses are compared with the case of unlimited attention. We found that for some autoregressive processes the differences from the perfect attention case are not very profound while for others the results vary considerably.