



## Research Working Papers

# Evaluating Macroeconomic Outcomes Under Asymmetries: Expectations Matter

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Household and firm expectations play a key role in determining the effects of asymmetries on macroeconomic outcomes.

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Asymmetries play an important role in many macroeconomic models. We show that assumptions on household and firm expectations play a key role in determining the effects of these asymmetries on macroeconomic outcomes. If households and firms have perfect foresight and hence do not account for the possibility of future shocks, then the implied longer-run averages and distributions for unemployment and inflation can differ significantly from their rational expectations counterparts. We first derive this result analytically under either an asymmetric monetary policy rule or a nonlinear Phillips curve before numerically examining some of the key nonlinearities featured in the recent literature.

JEL classifications: E32, E52, J64

## Article Citations

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## Related Research

- Bundick, Brent, and Nicolas Petrosky-Nadeau. 2021. "From Deviations to Shortfalls: The Effects of the FOMC's New Employment Objective." Federal Reserve Bank of Kansas City, Research Working Paper no. 21-04, July. Available at <https://doi.org/10.18651/RWP2021-04>
- Cairó, Isabel, and Avi Lipton. 2023. "Labor Market Discrimination and the Racial Unemployment Gap: Can Monetary Policy Make a Difference?" Federal Reserve Board, Finance and Economics Discussion Series no. 2023-065, September. Available at <https://doi.org/10.17016/FEDS.2023.065>

## Author



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Brent Bundick is a Vice President and Economist in the Economic Research Department of the Federal Reserve Bank of Kansas City. In that role, he conducts research on the macroeconomy and serves as an advisor to the Bank's leadership on monetary policy and macroeconomic issues. He rejoined the Bank in 2014 after completing his Ph.D. in Economics from Boston College. Prior to graduate school, Brent worked in the Department as a Research Associate and Assistant Economist. He also holds a M.S. in Mathematics and Statistics from the University of Missouri – Kansas City and a B.A. in Economics and Mathematics from the College of William and Mary. Brent's research has examined the effects of uncertainty on the macroeconomy and how changes in central bank communication affect inflation, labor markets, and the broader economy.

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