

Unintended Consequences: Sector-Specific Effects of Policy under Uncertainty

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Abstract:

Unintended consequences manifest themselves in many aspects of socioeconomic life. We explore a model of unintended consequences of novel policies, motivated by the social distancing policies put in place in order to stop the spread of COVID-19. In particular, we consider a 2-sector model with asymmetric health effects. In our set-up, the policy-maker is unaware of the unintended consequences of her policy. In fact, we call her unintended-consequences-averse. We discuss several approaches to evaluating policy in terms of welfare measures in general, and in our model.