

Document Information

Rational expectations criticism in a microeconomic setting: The case of military personnel retention models



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This paper develops a simulation methodology to evaluate the practical importance of rational expectations criticism in a microeconomic setting. It applies this methodology to a particular policy problem to show that the Annualized Cost of Leaving (ACOL) model, the most commonly used retention model, suffers considerable biases in analyzing the new military retirement policy. It suggests that when complex models are difficult to implement empirically, they can be used in a simulation mode in other microeconomic and macroeconomic settings to identify the limitations of other simple models, to quantify their practical importance, and to devise improvements to the simple models.

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