

Abstract: During the lost decades in the 1990s and 2000s, Japan witnessed the rising frequency of temporary sales and the declining hours worked. Motivated by this negative correlation, we construct a DSGE model with sales, wherein households go bargain hunting and firms determine its sale frequency endogenously. In the model, bargain hunting helps households avoid purchasing regular-priced goods, but it is time consuming like labor supply. We show that the real effects of monetary policy may weaken, because sales prices are frequently revised and endogenous bargain hunting enhances the strategic substitutability of sales. The real effects of technology shock, by contrast, may strengthen. The model reveals that declines in hours worked during Japan's lost decades account for an actual rise in the frequency of sales and a rise in the fraction of bargain hunters.