

Money and indeterminacy over an infinite horizon ^{*}

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Abstract

Money provides liquidity services through a cash-in-advance constraint. The exchange of commodities and assets extends over an infinite horizon under uncertainty and a complete asset market. Monetary policy sets the path of rates of interest and accommodates the demand for balances. Competitive equilibria exist. But, for a fixed path of rates of interest, there is a non-trivial multiplicity of equilibrium paths of prices of commodities. Determinacy requires that, subject to no-arbitrage and in addition to rates of interest, the prices of state-contingent revenues be set.

KEYWORDS: Money, equilibrium, indeterminacy, monetary policy, fiscal policy.

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