

Monetary equilibria with monopolistic competition and sticky prices

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Abstract

We consider a cash-in-advance economy under uncertainty in which monetary policy sets either short-term nominal interest rates or money supplies. We show that both the initial price level and the distribution of the inflation rate up to its expectation are indeterminate, regardless of the degree of competition or the flexibility of prices in commodity markets. This indeterminacy is not related to the stability of a deterministic steady state.

Key words: sticky prices; monopolistic competition; monetary policy; uncertainty; indeterminacy.

JEL classification numbers: D50; E31; E40; E50.

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