



Finance and Economics Discussion Series: Optimal Monetary Policy with State-Dependent Pricing

By Anton Nakov, Carlos Thomas

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.In an abstract economic model, we study optimal monetary policy from the timeless perspective under a general state-dependent pricing framework. We find that when firms are monopolistic competitors subject to idiosyncratic menu cost shocks, households have isoelastic preferences, and there is no government spending, strict price stability is optimal both in the long run and in response to aggregate shocks. Key to this finding is an envelope property: At zero inflation, a marginal increase in the rate of inflation has no effect on firms profits and therefore it has no effect on the probability of price adjustment. Our results lend support to more informal statements about the suitability of the Calvo model for studying optimal monetary policy despite its apparent conflict with the Lucas critique. We offer an analytic solution that does not require local approximation or efficiency of the steady state.



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