

Macro Roundup Article

Headline: [Waning Inflation, Supply and Demand](#)

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Tweet: [@JohnHCochrane](#) argues that cumulative inflation has raised the price level by something like 10-20%. His fiscal theory or "demand" view suggests this price shock is permanent, not "transitory."

Summary: Inflation seems to be waning. Is this not a victory lap for "team transitory," the view that inflation is just "supply shocks" that go away on their own? No. A "supply shock" would raise prices temporarily, and then prices would fall back down to normal once the supply shock is over. A supply shock all on its own cannot permanently raise the price level. How is the price level doing? The cumulative inflation has shifted up the price level by something like 10-20%, depending on what you think about the earlier trend. The fiscal theory or "demand" view says that this price level shock is permanent, or at least until something else comes along; a fiscal retrenchment would be necessary to lower the price level back to where it was.

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Primary Topic: Inflation

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