

Macro Roundup Article

Headline: [Fiscal Tidbits, Part 2](#)

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Tweet: .@JohnHCochrane notes that monetary or fiscal expansion is required for a price shock to raise the overall price level. “The supply shock is the cart, in front of the horse (monetary or fiscal policy) that pulls the inflation cart.”

Summary: It seems to me that for a relative price shock to raise the overall price level, you need demand; either monetary or fiscal policy. And then it's really the monetary and fiscal policy that's raising the overall price level. Now, yes, central banks and governments may well respond to a relative price shock with monetary or fiscal policy that raises the overall price level. They might choose option 2 or 3 in my little schema, not option 1. They don't like any prices to go down, especially wages, and view that option 1 might cause a recession that option 2 and 3 would avoid. That's a conventional reading of how “oil price shocks” caused inflation in the 1970s — they induced expansionary responses. But if the inflation is due to the monetary and fiscal policies, which respond to the relative price shock, does it really make sense to say that inflation is not due to the monetary and fiscal policy, but “due to” the supply shock?

Related Articles: [Fiscal Tidbits, Part 1](#) and [Fiscal Narratives for US Inflation and Fiscal Influences on Inflation in OECD Countries, 2020-2022](#)

Primary Topic: Inflation

Topics: Fiscal Deficits, Fiscal Policy, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

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