Grasping Reality with Both Hands

The weblog
of Brad DeLong. Since 1999.
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Modigliani (1944): Liquidity Preference—Noted

Franco Modigliani (1944): *Liquidity Preference and the Theory of Interest and Money* https://github.com/braddelong/public-files/blob/master/readings/article-modigliani-liquidity-preference.pdf: ‘As long as wages are flexible, the long-run equilibrium rate of interest is determined exclusively by real factors... the propensity to save and the marginal efficiency of investment. The condition, money saving = money investment, determines the price level and not the rate of interest. If wages are rigid... the propensities to save and to invest but the situation is now more complicated; for these propensities depend also on money income and therefore on the quantity of active money which in turn depends itself on the level of the rate of interest.... In a system with rigid wages not only interest but also almost every economic variable depends on the quantity of money.... [In] the "Keynesian [liquidity trap] case"... the long-run equilibrium rate of interest is the rate which makes the demand for money to hold infinitely elastic... [and] the rate of interest is determined exclusively by institutional factors.

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.#noted #2020-08-31
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