

Credit, Money, Interest, and Prices

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Overview

1 Introduction

2 Wicksellian Benchmark

- Unanticipated/Anticipated Credit Crunch
- Unanticipated/Anticipated Productivity Shock

3 Non-Ricardian Policy

- Unanticipated/Anticipated Real Transfers
- Unanticipated/Anticipated Productivity Shock

4 Appendix

Introduction

Here, we present a policy restriction that neutralizes the effects of MP on the spread and its fiscal consequences.

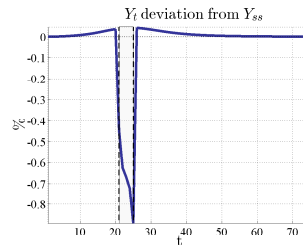
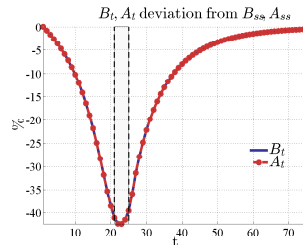
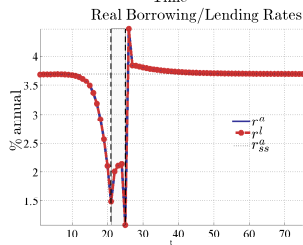
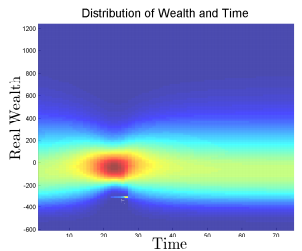
Proposition 1. *Let $E_t = T_t = 0$ for all t . Also, for all t , let the CB either:*

- ① *distribute all operational profits: $\pi_t^f = \tau_t^l L_t$, or*
- ② *strictly satiates the market of reserves: $\Lambda_t > \varrho + (1 - \varrho)\delta$*

Then,

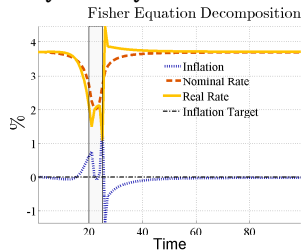
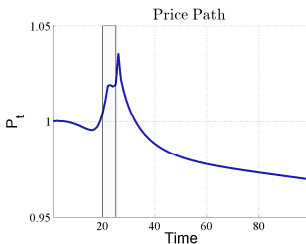
- ① $\Delta r_t = 0$,
- ② r_t^a solves $\int_{-\infty}^0 s f_t(s) ds = \int_0^{\infty} s f_t(s) ds$,
- ③ $\frac{\dot{P}_t}{P_t} = i_t^a - r_t^a$

Unanticipated/Anticipated Credit Crunch

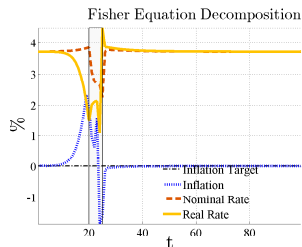
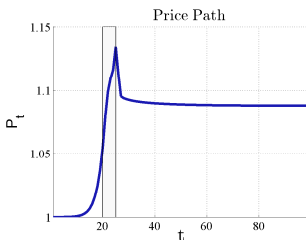


Unanticipated/Anticipated Credit Crunch

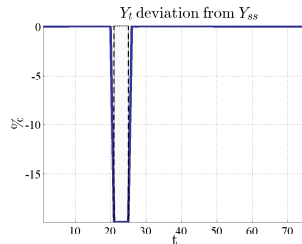
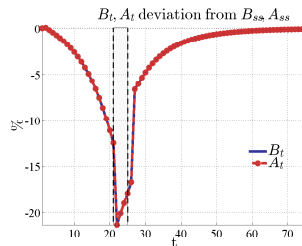
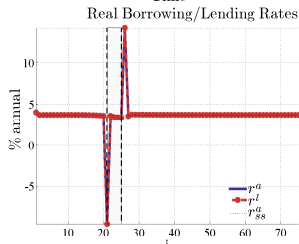
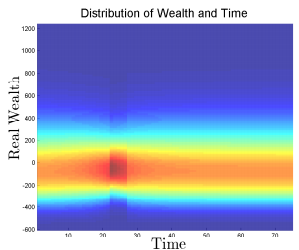
Constant Monetary Policy



Taylor Rule

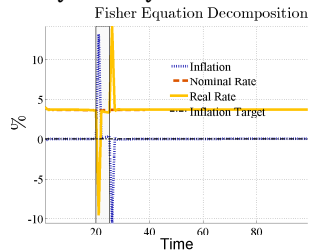
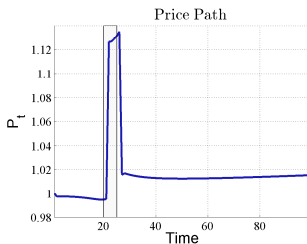


Unanticipated/Anticipated Productivity Shock

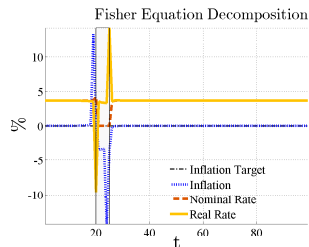
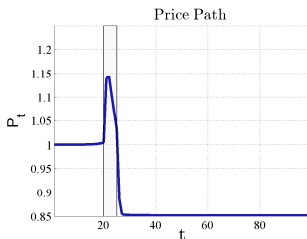


Unanticipated/Anticipated Productivity Shock

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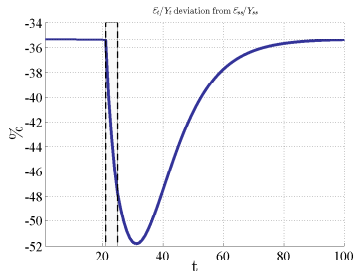
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- Unanticipated/Anticipated Productivity Shock

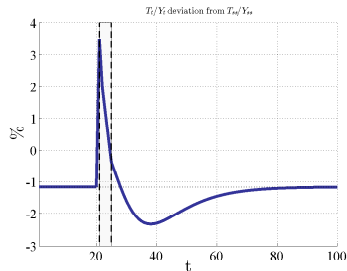
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Introduction

Here, we will show that we cannot study the effects of monetary policy on spreads without studying the fiscal consequences of that policy. We maintain the assumption that government provides a loan subsidy that neutralizes the effects on spreads, however, we now allow for $E_t, T_t \neq 0$.

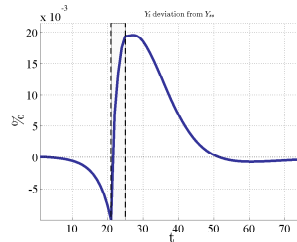
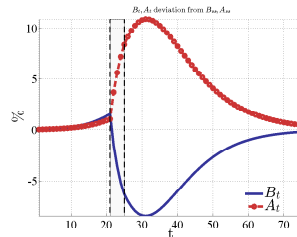
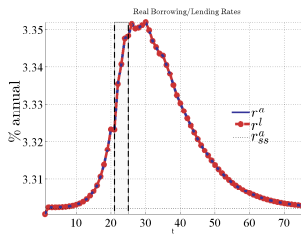
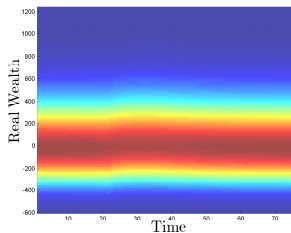


(a) Government's Net Worth

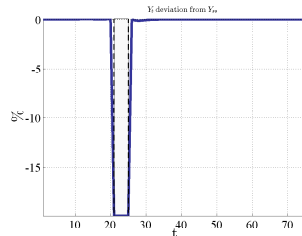
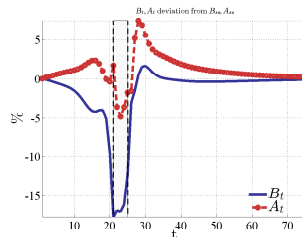
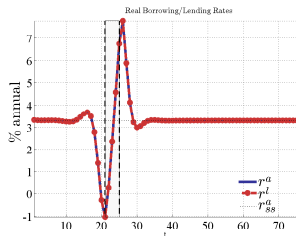
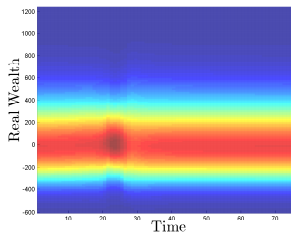


(b) Real Transfers

Unexpected/Expected Real Transfers



Unexpected/Expected Productivity Shock



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Appendix: Unexpected/Expected Credit Crunch - Wicksellian regime

Distribution of Wealth and Time

