Barro output equation, for nonneutrality of unanticipated money, 391–392
Bonds, indexed, 271–295. See also Intergenerational risk sharing and call option pricing, 327–329
call provision and, 310
government debt and, 349–351
government financial intermediation and, 336–346
inflation and, 308–310
multigoods, multiindexed case for, 281–284
neutrality theorem and, 348
nonexistence of, 299–317
optimal government financing and, 346–349
profits and, 305–307
single-good, three-asset case for, 272–281
supply of, 303–305
tax treatment of interest and, 307–308
variance of inflation rate and, 310, 312
and wage income, 284–286
welfare aspects of, 333–352
Bonds, nominal, and call option pricing, 327–329

Capital controls, exchange rates and, 256–257
Contracting model. See also Disinflation and alternate monetary policies, 233–234
disinflation and, 221–241
for wage indexation, 235–238
Contracts, labor, wage indexation and, 170–174
Contracts, long-term, and optimal money supply rule, 365–378
indexed contracts and, 374–376

one-period contracts and, 368–371
two-period nonindexed labor contracts and, 371–374
Currency, reduced demand for, 12

Disinflation
and alternate monetary policies, 233–234
alternate policies for, 238–239
contracting model for, 221–241
contracts and, 221–241
exchange rates vs. money targets in, 247–260
1979–1986, 239–241
Dollarization, defined, 431
Dynamic inconsistency, 413–427
and the applicability of optimal control, 424
and economic policy, 425–426
command optimum of, 415, 419
consistent solution and, 418–420
and differences in utility functions, 421, 423–424
inconsistent solution and, 420–421
of indexing, 206, 207
numerical examples for models of, 421
optimal tax problem and, 415–417
optimum problem of, 414–415
and principle of optimality, 418–420
problem of, 417–418
seigniorage and, 434–435

Economy, indexed, 11–14. See also Inflation, unanticipated anticipated inflation in, 12–14
and capital accumulation, 12–13
and level payment mortgages, 18–19
and menu-prices, 13–14
and nominal accounting methods, 19–20
Indexation, of wages. See Wage indexation

Indexing
  dynamic inconsistency of, 206–207
  empirical evidence for, 207–215
  and government budget constraint, 197–215
  inflation and, 193–217
  model for, 194–197
  and mutual causation, 206
  and stabilizing mechanisms, 205–206

Inflation
  cost of ex ante uncertainty about, 60–61
  effects of, 7–29
  effects of uncertainty on, 41–42
  framework for welfare effects of, 36–44
  and indexing, 193–217
  and money triangle equations, 39–40
  and Regulation Q, 28
  and relative price variability, 57–60, 61–62
  and return on capital, 40
  and suppression of symptoms of, 27–29
  and uncertainty about rate of, 52, 54, 56–57
  variability of, 51–60
  welfare loss from, 60–61

Inflation, anticipated
  and anticipated money, 386–388
  and capital accumulation, 12–13
  costs of, 44–51

effect of interest rate controls on, 46–48
  in indexed economy, 12–14
  institutional effects of, 388–390
  and menu prices, 13–14
  money triangle and, 44–46
  and reduced currency demand, 12
  and savings, 48–50

Inflation, future, uncertainty of effects of, 26–27

Inflation, Israeli. See Macroeconomy of Israel

Inflation, and relative price variability, 42–43, 71–117
  asymmetric price adjustment approach to, 73
  empirical relations between, 77–117
  endogenous policy approach to, 74–75
  government policy approach to, 74
  Granger causality tests and, 88–89
  macroeconomic approach to, 74
  market behavior approach to, 72
  menu costs, approach to, 73
  regressions linking, 80, 87–88
  vector autoregressive models for, 90–105
  and fixity of nominal prices, 26
  income redistributions and, 20
  indexed economy and, 20–22, 24, 26
  wealth redistribution and, 20–22, 24

Inflation and unemployment, public
  changes in over time, 141, 143–144
  determinants of individual responses to, 134–140
  issues of, 123–124
  questions and answers of, 124–134

Intergenerational risk sharing. See also Bonds, indexed
  aggregate uncertainty and, 344–345
  dynamics of financial intermediary for, 342–343
  optimal allocations for, 338–339
  private sector and, 339–342
  schemes for, 343–344

Lucas supply function, for nonneutrality of unanticipated money, 392–393

Macroeconomic stability
  and comparison of short-run responses to disturbances in multiperiod contract model, 176–178
  and indexing money stock, 180–181
and interest elasticity of demand for money, 182–187
and labor contracts, 170–174
and nonindexed labor contracts, 171–174
stabilizing monetary policy, 180
wage indexation and, 159–187

Macroeconomy of Israel
balance of payments and, 462–463
capital market indexation and, 466–468
defense spending and, 454–455
exchange rate policy and, 468, 470–472
history of, 454–455, 459, 462–463
inflation-unemployment trade-off and, 478–479
oil shock and, 455
PATAM accounts and, 468, 470
stabilization of, 472, 474–477, 479–481
wage indexation and, 463–466
Monetary policy, activist, 383–405. See also Dynamic inconsistency
and anticipated inflation, 386–388
Barro output equation for, 391–392
and constant growth rate rule, 397
contracting model for, 233–234
desirability of, 394–396
discretion and, 400–401
disinflation and, 233–234
history of, 397–399
and institutional effects of anticipated inflation, 388–390
Lucas supply function for, 392–393
modified, 399–400
modified constant growth rate rule for, 402–403
nonneutrality of anticipated money and, 385–390
nonneutrality of unanticipated money and, 390–394
in practice, 396–400
rule for, 401–402
rules vs. discretion in, 400–403
Money, anticipated
defined, 385
and inflation, 386–388
Money, foreign. See also Seigniorage
institutional arrangements using, 432–433
use of, 431–442
Money, unanticipated
Barro output equation for, 391–392
Lucas supply function for, 392–393
nonneutrality of and monetary policy, 385–394
and sticky prices, 393–394
Money supply rule, optimal
accelerationist version of, 366
contracts and, 365–378
indexed contracts and, 374–376
long-term contracts and, 365–378
one-period contracts and, 368–371
rational expectations hypothesis for, 366–378
two-period nonindexed labor contracts and, 371–374
Money target(s)
under certainty, 248–257
vs. exchange rate, 247–260
stabilizing through, 252–253, 256
under uncertainty, 257–259
Neutrality theorem, and indexed bonds, 348
Phillips loops, 365–366
Phillips curve, 365–366
Price variability, relative. See also Vector autoregressive model
inflation and, 71–117
market behavior approach to, 72
international comparisons of, 113–116
measurement of, 77–79
overview of, 79–80
welfare significance of, 105–113
Pricing, call option, 321–329
Black-Scholes formula for, 321–322
dynamics of, 322–327
indexed bonds and, 327–329
nominal bonds and, 327–329
Private institutions, nominal, indexed economy and, 18–20
Regulation Q, inflation and, 28
Sacrifice ratio, defined, 250
Seigniorage, 431–442
annual flow of, 439–440
and dynamic inconsistency of optimal policy, 434–435
and fixed exchange rate regime, 433–435
and floating exchange rate regime, 433–434
initial costs of, 440
recent use of, 435, 439
reducing costs of, 441–442
and use of dollar, 439–440
Tax system
and indexed economy, 14–18
nonindexation of tax brackets in, 14–15

Unemployment, inflation and, public opinion polls on, 123–145
changes in over time, 141, 143–144
determinants of individual responses to, 134–140
issues of, 123–124
questions and answers of, 124–134
Utility functions, dynamic inconsistency and, 421, 422–424

Vector autoregressive model
defined, 90
for relative price variability, 90–105
role of food and energy prices in, 96–97
and variance decompositions, 97, 99

Wage indexation
formula for, 174–176
and indexing money stock, 180–181
and interest elasticity of demand for money, 182–187
and labor contracts, 170–174
and macroeconomic stability, 159–187
Wage indexation models for, 161–170, 171–176
and stabilizing monetary policy, 180