

Contents

LIST OF CONTRIBUTORS	xv
PREFACE	xvii
ELISHA A. PAZNER: 1941–1979	xxi

Introduction

Development in an Inflationary World: Israel	1
<i>M June Flanders and Assaf Razin</i>	
References	16

PART I INFLATION: CAUSES, CHARACTERISTICS, CURE(S)

Diagnosing Inflation: A Taxonomy

James Tobin

1. Introduction	19
2. A Monetary Phenomenon?	20
3. Excess Demand and Trade-Off Inflation	21
4. The Political Business Cycle	22
5. Accommodation	23
6. Inertial Inflation	23
7. Specific Price Inflation	24
8. Disinflation by Nonaccommodation	25
9. Equilibrium Paths	27
10. Conflict Inflation	28
References	29

Some Observations on the Inflationary Process

Don Patinkin

In Step and Out of Step with the World Inflation

A Summary History of Countries, 1952–1976

Arnold C. Harberger

1. Introduction	35
2. The World Inflation, 1952–1976	35

3. Chronic and Acute Inflations	38
4. Looking beyond the Money Supply	39
5. The Devaluation Crisis Countries	42
6. A Brief Note on Israel's Inflation	45

**A Mutation in the Aggregate Price and Employment
Equilibrating Mechanism of a Market Economy** 47

Abba P. Lerner

PART 2 STAGFLATION

Supply-Shock Inflation

Money, Expectations, and Accommodation

Alan S. Blinder

1. Introduction	61
2. The Great Stagflation: A Keynesian Interpretation	63
3. Is Inflation Always and Everywhere a Monetary Phenomenon?	72
4. Monetary Accommodation and Expectations	77
5. Implications for Macroeconomic Theory and Policy	94
Appendix: Microeconomics of the Augmented Lucas Model	97
References	100

**Stagflationary Effects of Monetarist Stabilization
Policies in Economies with Persistent Inflation**

Domingo F. Cavallo

1. Introduction	103
2. Theoretical Discussion	105
3. Adaptation of the Model to the Argentine Economy	108
4. The Basic Structure of the Econometric Model	110
5. Estimation of Aggregate Demand for and Supply of Commodities	121
References	128

**Some International Evidence on Output-Inflation
Trade-Offs: A Reappraisal**

Michael Parkin, Brian Bentley, and Christina Fader

1. An Aggregate Model of an Open Economy	133
2. Tests and Results	141
Appendix	151
References	151

PART 3 INDEXATION AND PRICING

On Indexation and Macroeconomic Stability

Elisha A. Pazner

1. Introduction	155
2. Gray's Macroeconomic Model	156
3. Monetary Shocks	157
4. Real Shocks	157
5. On the Optimal Degree of Indexation	159
6. Concluding Remarks	160
References	161

Partial Tax Indexation and Economic Stability

Ben-Zion Zilberfarb

1. The Income Tax Equation in Indexed and Unindexed Regimes	164
2. The Effect of Tax Indexation on Economic Stability: Simulation Results	165
3. Conclusions	168
Appendix	170
References	171

Wage Indexation in an Open Economy

Abraham Knobel

1. Introduction	173
2. A One-Commodity Two-Country Model	174
3. A Two-Commodity Model for a Small Open Economy	181
4. Devaluation	189
5. Conclusions	192
References	193

**Inflation, Costs of Adjustment, and the Amplitude
of Real Price Changes**

An Empirical Analysis

E. Sheshinski, A. Tishler, and Y. Weiss

1. Introduction	195
2. A Model of Price Adjustment	196
3. Statistical Formulation	199
4. Some Preliminary Findings	202
Appendix 1	205
Appendix 2	206
References	206

PART 4 FINANCIAL ASSETS, FOREIGN EXCHANGE,
AND CAPITAL MARKETS

**The Permanent Effects of Inflation on Development and Choice
of Production Technique**

Allan Drazen

1. Introduction	211
2. Alternative Views on Inflation and Capital Accumulation	212
3. Permanent Effects of Capital Rationing: General Mechanisms	215
4. The Interaction of Capital Constraints and Learning by Doing	217
5. Summary and Conclusions	230
References	231

**Equilibrium Business Cycle Theory with Centralized
Trading in Some Assets**

Edi Karni

1. Introduction	233
2. Preliminaries and Notation	235
3. Two-Shock Systems and Equilibrium Business Cycles	236
4. Concluding Remarks	241
References	242

**Inflation and Balance of Payments Adjustments
with Maximizing Consumers**

Elhanan Helpman

1. Introduction	243
2. The Basic Framework	244
3. Properties of the Demand Functions	248
4. Inflation and the Adjustment Process	250
5. Closing Remarks	256
References	258

Exchange Rates and Price Movements in a World of Capital Mobility

Assaf Razin

1. Introduction	259
2. The Framework	261
3. Diagrammatic Exposition	263
4. Monetary Policies	266
5. Fiscal Policies	267
6. Output Changes	268
7. Optimal Policies	269
8. Traded and Nontraded Goods: The Small Country Case	270

9. Fiscal Policies with Nontraded Goods	274
10. Feedbacks from the Monetary Sector to the Real Sector	278
References	279

PART 5 EXPECTATIONS AND MACROECONOMETRICS

Exchange Rates in the 1920s

A Monetary Approach

Jacob A. Frenkel and Kenneth W. Clements

1. Introduction	283
2. A Model of Exchange Rate Determination	284
3. Efficiency of Foreign Exchange Markets	290
4. Empirical Tests of the Monetary Approach to the Exchange Rate	293
5. Concluding Remarks	303
Appendix A. Estimation Procedures	305
Appendix B. The Data Base	307
References	316

Budget Deficits and Inflation

Rudiger Dornbusch and Stanley Fischer

1. Theories of the Inflation Process	320
2. Money Supply Behavior	330
3. Money Growth Equations	332
4. The Price Equation	337
5. The Wage Equation	338
6. Concluding Remarks	340
Appendix. The Data	341
References	342

Inflation and the Balance of Payments under a Crawling Peg Regime

Mario I. Blejer and Leonardo Leiderman

1. Introduction	343
2. The Model	3- 4
3. Empirical Investigation	3-19
4. Concluding Remarks	355
References	355

Elements of a Pure Theory of Forecasting and the After-Keynesian Macroeconometrics

Yair Mundlak

1. Introduction	359
2. Expectations as Unobservables	362

3. The Sampling Variance	365
4. Expectation as a Prediction	368
5. On the Information Contained in the Sample and Its Utilization	369
6. Concluding Remarks	372
References	373

PART 6 MACRO PUBLIC FINANCE

Public Debt and Taxes

Robert J. Barro

1. Some Data on Public Debt	377
2. Economic Effects of the Debt/Tax Choice	380
3. Public Debt and the Timing of Taxation	387
4. The Burden of the Public Debt	389
5. Fiscal Policy	391
References	392

Fiscal Policies, Inflation, and Capital Formation

Martin Feldstein

1. Introduction	395
2. A Three-Asset Model of Monetary Growth	396
3. Deficits, Inflation, and Capital Intensity	401
4. Fiscal Incentives, Saving, and Aggregate Demand	408
5. Some Conclusions	413
References	415

On the Almost Neutrality of Inflation

Notes on Taxation and the Welfare Costs of Inflation

Joseph E. Stiglitz

I INFLATION IN A FULLY INDEXED ECONOMY	420
1. Perfectly Anticipated Inflation	420
2. Changes in the Rate of Inflation	423
3. Limitations on the Basic Theorem	423
4. Unanticipated Inflation	426
5. Uncertain Rates of Inflation	428
 II TAXATION	 432
6. Depreciation	433
7. Tax Treatment of Capital Gains	446
8. Concluding Comments	454
References	457

PART 7 REVIEW AND CRITIQUE

Critique I	461
<i>Rudiger Dornbusch</i>	
References	468
Critique II	469
<i>Douglas D. Purvis</i>	
References	479
CONFERENCE PARTICIPANTS	481
AUTHOR INDEX	483
SUBJECT INDEX	487
COUNTRY INDEX	491