

# CONTENTS

Foreword

XI

## FIRST LECTURE

Keynesianism, Monetarism, and the Case for and against  
Active Stabilization Policies

3

1. From the Keynesian Revolution to the Monetarist Counter-  
revolution, pp. 3-5. 2. Where are the Real Differences  
between Monetarists and Non-Monetarists?, pp. 6-7. 3. Demand  
Shocks and Determinants of the Response of the System, pp. 8-11.  
4. Keynesian Assessment and Implications, pp. 12-13. 5. The  
Initial Monetarist Attack, pp. 14-16. 6. Empirical Evidence  
on the Critical Parameters, pp. 17-19. 7. Wage-Price Behaviour  
and the Phillips Curve, pp. 20-1. 8. The Monetarist View of  
the Wage-Price Mechanism, pp. 22-4. 9. The Macro Rational  
Expectations Salient, pp. 25-8. 10. Criticism of the Monetarist  
Paradigm, pp. 29-30. 11. Sketch of an Alternative View of  
the Labour Market and why it adjusts sluggishly, pp. 31-3.  
12. Implications of the Wage-Price Mechanism for the Stability  
of the System, pp. 34-5. 13. The Experience with Stabilization  
Policies, pp. 36-8. 14. Concluding Remarks, p. 39.

## SECOND LECTURE

Aggregate Demand and the Control of the  
Inflationary Process

41

1. Introduction, p. 41. 2. The Nature of Inflation, pp. 42-4.  
3. The Italian Inflation – a special case, pp. 45-6. 4. The  
Issues involved in the Choice of a Stabilization Path, pp. 47-8.  
5. The Economic and Social Cost of Unemployment, pp. 49-50.  
6. The Cost of Inflation, pp. 51-68: i) An area of great  
controversy, p. 51; ii) The mythical fully indexed economy,  
pp. 52-3; iii) Effects of inflation apart from errors in expectations  
and other errors, pp. 53-7: a) The effect of a “nominal”  
tax system, pp. 53-5; b) The role of private nominal institutions,  
pp. 55-7; iv) The effects of errors in expectations, pp. 57-61:  
a) Long-term nominal contracts and unanticipated inflation,

VII

## CONTENTS

- pp. 57-60; b) The effect of price-level uncertainty, pp. 60-1;  
v) Other inflation-induced errors and their effect, pp. 61-5:  
a) Inflation illusion and financial markets, pp. 61-4; b) The  
inflation discomfort syndrome, p. 65; vi) Inflation and saving,  
pp. 65-7; vii) The cost of inflation – an overview, pp. 67-8.  
7. The Relative Costs of Excess Unemployment and Inflation  
over the Re-entry Path, pp. 69-70. 8. The Nature of the  
Optimal Stabilization Path, pp. 71-9: i) Feasible paths – the  
Phillips Curve, pp. 71-2; ii) Optimal policy with a long-run  
trade-off, pp. 73-4; iii) “Long-run costs” versus “stabilization  
costs”. The “turnpike” solution, pp. 75-7; iv) The empirical  
relevance of a non-vertical long-run Phillips Curve, pp. 77-9.  
9. Optimal Stabilization Policies for the United States – an  
illustration, pp. 80-2: i) The non-vertical case, pp. 80-1;  
ii) The case of a long-run vertical Phillips Curve, pp. 81-2.  
10. The Role of Aggregate Demand Policy to control Inflation:  
An Overview and Critique, pp. 83-5.

### THIRD LECTURE

#### The Monetary Mechanism Revisited and its Relation with the Financial Structure

87

1. Introduction, pp. 87-90. 2. A Formulation of the  
Traditional Model, pp. 91-4. 3. Shortcomings of the  
Traditional Paradigm, pp. 95-6. 4. Toward a Broader View  
of the Monetary Mechanism, pp. 97-101. 5. Controlling  
Nominal Income Through Bank Credit, pp. 102-6. 6. The  
Working of Bank Liabilities Targets, pp. 107-8. 7. The  
Role of the Deposit Rate, Interest Ceilings and Credit  
Rationing, pp. 109-11. 8. The Choice between Alternative  
Intermediate Targets:  $M_1$ , bank credit (or  $M_2$ ),  $r$ , pp. 112-14.  
9. Some Implications of a More Complex Financial Structure,  
pp. 115-20: a) Firms' Financing from Non-bank Sources,  
pp. 115-19; b) Bank Sources other than Deposits, pp. 119-20.

### FOURTH LECTURE

#### The Accumulation of Individual and National Wealth and the Role of Social Security

121

1. Historical Perspective on the Role of Accumulation,  
pp. 121-3. 2. Keynesian Views of the Determinants of Saving,  
pp. 124-6. 3. The New Theories of the Consumption

## CONTENTS

Function, pp. 127-8. 4. Implications for Propositions 2, 3 and 4, pp. 129-31. 5. Propositions 1 and 5 and the Role of Growth, pp. 132-9. 6. The Role of Bequests, pp. 140-2. 7. Proposition 6, pp. 143-5. 8. The Effect of Pension Funds on Saving, Private and National, pp. 146-62: i) The LCH Perspective, pp. 146-9; ii) Some empirical evidence, pp. 150-7; iii) Replacement versus induced retirement effects, pp. 157-60; iv) Some considerations on the Italian case, pp. 160-2.

### DISCUSSION 163

Giampiero Franco, pp. 165-6; Giovanni Bellone, pp. 166-7; Giuseppe Pellicanò, p. 167; Galeazzo Impicciatore, pp. 167-8; Gabriele Gaetani D'Aragona, pp. 168-9; Gianluigi Mengarelli, p. 169; Orlando D'Alauro, pp. 169-70; Giorgio Rota, pp. 170-1; Franco Bruni, pp. 171-4; Franco Cotula, pp. 174-6; Paolo Baffi, pp. 176-80; Mario Baldassarri, p. 180-1; Mario Monti, pp. 181-4; Luigi Pasinetti, pp. 184-7; Fabrizio Onida, pp. 187-9.

### Comments by Franco Modigliani 191

#### Biography of Franco Modigliani 213

1. Biographical Note, pp. 215-22. 2. Contribution to the Development of Economic Theory, pp. 223-6: i) Monetary and Macroeconomic Theory, pp. 223-4; ii) The Theory of Saving, pp. 224-5; iii) The Theory of Corporate Finance, pp. 225-6. 3. Publications, pp. 227-44. 4. Collected Papers, pp. 245-50.

### References 251

### Index 263