

Contents

Preface	ix
Part I Introduction	1
1 Introduction	3
1.1 The Purpose of this Book	3
1.2 The Real Balance Effect – The 1950s to the 1980s	6
1.3 Issues in Measuring Effects on Wealth	9
1.4 A Goal of this Book: Integration	14
1.5 Brief Outline of the Book	16
2 A Survey of Analysis of Wealth Effects	19
2.1 Introduction	19
2.2 The Price-Induced Effect on Wealth	22
2.3 The Interest-Rate-Induced Effect on Wealth	41
Part II Review	47
3 Wealth and Substitution Effects: The Analysis of <i>Value and Capital</i>	49
3.1 The Exchange Economy – Wealth Effects	50
3.2 The Production Economy – The Role of Production in Wealth Effects	66
3.3 Multi-Period Analysis – Interest-Rate-Induced Effects on Wealth	70
3.4 Expectations in the Hicksian Analysis	80
Part III The Price-Induced Effect on Wealth	87
4 The Price-Induced Effect on Wealth: A Fixed Money Stock	89
4.1 Yap-Island Money	90
4.2 Conditions for the Conventional Real Balance Effect	96
4.3 The Neutrality of Yap-Island Money	99
4.4 The Case Where Business Holds Money Balances – A Preliminary Look at the Initial-Condition Effect	101
4.5 Distribution Effects: Creators of the Money Stock	105
4.6 Quantitative Importance of the Price-Induced Effect on Wealth	107

5	Government Fiat Money, the Price-Induced Effect on Wealth, and the Initial-Condition Effect	117
5.1	Government, Government Money, and the Price-Induced Effect on Wealth	119
5.2	The Determinacy of the Price Level – the Initial-Condition Effect	124
5.3	An Alternative Assumption about Money Accumulation	133
5.4	Does Government Suffer from Money Illusion?	134
5.5	Is Money a Part of Government’s Liabilities?	136
5.6	The Household Sector Knows its Tax Liabilities	138
Appendix 5A	A Non-Zero Price-Induced Effect on Wealth is Not Sufficient to Render the Price Level Determinate	139
Appendix 5B	The Price-Induced Effect on Wealth in Models of Money and Growth	142
6	Bank Money and Wealth Effects: Banks Pay a Competitive Rate of Interest	149
6.1	A Wealth-Maximizing, Price-Taking, Quantity-Setting Banking Sector	151
6.2	The Price-Induced Effect on Wealth – Bank Money	156
6.3	The Banking Sector Initial-Condition Effect	162
6.4	The Velocity Effect	165
6.5	The Neutrality of Money	166
6.6	The Determinacy of the Price Level, the Initial-Condition Effects with Bank Money, and the Velocity Effect	167
6.7	The Role of Banks and Bank Money in the Price-Induced Effect on Wealth	169
6.8	Bank Profits, Restrictions on Entry, and Reserve Requirements	171
6.9	The Homogeneity Assumption	173
6.10	Banks, Welfare, Wealth, and the Price-Induced Effect on Wealth through Banks	174
6.11	The “Old View” and “New View” Monetary Theories, and Many Financial Assets	176
Appendix 6A	The Wicksellian Cumulative Process	180
Appendix 6B	Bank Service Charges on Customer Transactions	182
7	Interest-Bearing Money and the Price-Induced Effect on Wealth	187
7.1	Interest Rate Regulation on Otherwise Competitive Banks	190
7.2	Interest-Bearing Government Money	200
7.3	Patinkin’s Critique of Pesek and Saving	213
7.4	Conclusions	229

Part IV The Interest-Rate-Induced Effect on Wealth, and Government Bonds	233
8 The Interest-Rate-Induced Effect on Wealth, and Government Bonds as Net Wealth	235
8.1 The Interest-Rate-Induced Effect on Wealth	237
8.2 The Interest-Rate-Induced Effect on Wealth, and Intergenerational Redistribution	243
8.3 Bequests and the Interest-Rate-Induced Effect on Wealth	251
8.4 The Government Does Not Redeem Its Debt Through Taxation	254
8.5 Does the Ratio of National Debt to GNP Matter?	262
9 Government Bonds as Net Wealth: An Uncertainty Analysis	269
9.1 Introduction	269
9.2 Taxes are Uncertain	271
9.3 Liquidity Constraints	276
9.4 Non-Lump-Sum Taxes	280
9.5 Conclusions	285
Part V Measuring Changes in Real Wealth	291
10 Problems in Measuring Changes in Real Wealth	293
10.1 True Versus Measured Changes in Wealth	297
10.2 Mismeasurement, Forecasting, and Estimation	309
10.3 Measuring Wealth Effects when there are Quantity Constraints	313
References	320
Index	325