

Table of Contents

	List of Tables	ix
	Preface	xiii
Chapter One	Introduction	1
1.1	The Purpose of the Study	1
1.2	An Outline of the Model	3
1.3	The Methodology of the Study	12
1.4	Suggestions to the Reader	16
Chapter Two	Banks	19
2.1	The Basic Equations	19
2.2	The Formation of Expectations	22
2.3	Behavioral Assumptions	25
2.4	The Solution of the Control Problem	29
2.5	Some Examples of Solving the Control Problem of Bank i	29
2.6	The Condensed Model for Banks	35
Chapter Three	Firms	39
3.1	The Basic Equations	39

3.2	The Formation of Expectations	45
3.3	Behavioral Assumptions	49
3.4	The Solution of the Control Problem	54
3.5	Some Examples of Solving the Control Problem of Firm i	56
3.6	The Condensed Model for Firms	64
Chapter Four	Households	75
4.1	The Basic Equations	75
4.2	The Formation of Expectations	78
4.3	Behavioral Assumptions	79
4.4	The Solution of the Control Problem	81
4.5	Some Examples of Solving the Control Problems of the Households	82
4.6	The Condensed Model for Households	88
Chapter Five	The Government and the Bond Dealer	97
5.1	The Government	97
5.2	The Bond Dealer	98
5.3	The Condensed Model for the Government and the Bond Dealer	101
Chapter Six	The Dynamic Properties of the Model	103
6.1	The Complete Set of Equations for the Model	103
6.2	The Response of the Model to Shocks from a Position of Equilibrium	116
6.3	The Effects of Policy Changes from a Disequilibrium Position	147
6.4	The Long-Run Properties of the Model	149
6.5	Price and Wage Responses	152
6.6	The Relationship Between Demand Deposits and Aggregate Output	153
Chapter Seven	A Static-Equilibrium Version of the Model	157
7.1	Introduction	157
7.2	The Static-Equilibrium Version	158
7.3	The Solution of the Static Model	168
7.4	A Comparison of the Static Model to the Textbook Model	177

Chapter Eight	Conclusion	181
8.1	Summary	181
8.2	Possible Extensions of the Model	186
8.3	Empirical Implications of the Model	190
8.4	Concluding Remarks	194
Appendix	The Non-Condensed Version of the Model	195
	References	219
	Index	223
	About the Author	227