Recap Information 3:
Shopping-time models and
Cash-in-Advance models

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The lecture slides associated with this part of the course provide the most comprehensive information about what I find of relevance. Nevertheless, this note briefly lists the key concepts that you are supposed to know and be able to explain.

Key concepts you should know

Shopping-time models

- The relationship between shopping time, consumption and real money holdings

- The utility function as an indirect function of real money balances

- The consumption leisure trade-off and the impact of an increase in real money

- Optimal money demand and the optimal quantity of money in the dynamic shopping-time model

Cash-in-advance models

- The Cash-in-Advance constraint

- The Lagrange multiplier on the CIA constraint

- The optimal consumption choice with a binding CIA constraint

- The relationship between the nominal interest rate and the Lagrange multiplier on the CIA constraint

- Consumption and the nominal interest rate; the nominal interest rate as a "consumption tax"

- The long-run non-distortionary implications of the "consumption tax"

- Superneutrality in model with CIA constraint only on consumption goods, and utility only depending on consumption

- Causes of non-superneutrality: A consumption-leisure trade-off; cash and credit goods; CIA restrictions on investment on physical capital

- The optimal rate of inflation in cases of non-superneutrality

- The stochastic CIA model with endogenous labor supply

- The channel of monetary shocks through the consumption-leisure trade-off

- Qualitative effect of money shocks independent of value of constant rate of relative risk aversion

- Why only anticipated money matters

- The stabilizing effect of a procyclical monetary policy (against supply shocks)

Money and real costs of transactions

- Money, consumption and transactions costs

- Feenstra's equivalence result (just knowing it exists is sufficient)