Recap Information 4: Inflation as a tax

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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

Public budget accounting, inflation and debt

- The consolidated public budget constraint
- Seigniorage
- Real money balances as a real liability for the government paying no interest => inflation reduces the real return
- Seigniorage possible even with zero inflation when nominal interest rates are positive (by changing the composition of total liabilities from bonds towards money)
- Monetary policy's influence on fiscal policy and vice versa
- The "No-Ponzi-Game" condition
- Debt and deficits' influence on inflation
  - Dependence of the fiscal-monetary regime
  - Fiscal versus monetary "dominance"
  - With fiscal "dominance," debt may be inflationary
- Debt and price level determination when only a fraction of debt is backed by taxes

Equilibrium seigniorage

- The limits to collection of seigniorage
- The seigniorage "Laffer curve"
- Seigniorage and hyperinflations
- Hyperinflations as non-fundamental based

Optimal taxation and seigniorage

- Seigniorage as part of the optimal tax structure problem
- Positive correlation between taxes and seigniorage in Mankiw model
- Tax smoothing
- Taxes and seigniorage when financing needs are permanent versus when they are temporary

Robustness of the Friedman rule?

- The Friedman rule in a CIA model with a cash and a credit good
- The optimality of the Friedman rule even with distortionary taxes:
  - With homothetic utility, and weak separability in leisure, uniform commodity taxes are optimal
  - A positive interest rate distorts demand away from cash good
- The Friedman rule in a MIU model
  - With homothetic utility in consumption and money, and weak separability in leisure, the Friedman rule is optimal

Inflation and an unindexed tax system

- Undesirable effects of inflation through the tax system
- Inflation reduces after-tax return on capital
- Lower savings and lower steady-state physical capital stock result