Recap Information 5: Money's role with incomplete nominal adjustment

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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

Imperfect information as a source of non-neutrality of money

- Friedman's informal hypothesis
- The essentials of the Island model: Imperfect information
- Agents cannot distinguish whether money shocks are aggregate or local
  - If shocks are known to be aggregate they have no real effect
  - If shocks are known to be local, they have real effects
- The signal extraction problem
- The linear least squares projection
- The role of the relative variances of local and aggregate shocks in agents' estimation of shock
- The real effects of aggregate shocks under imperfect information
- The role of unanticipated money
- The policy irrelevance hypothesis
  - Weak and strong form

One-period sticky wages and prices

- Simple one-period nominal wage contracts in MIU model
- The employment effects of higher-than-expected prices
- Real effects of unanticipated money
- Lack of persistence of money shocks with one-period wage rigidity

Staggered price setting

- Model of imperfect competition in intermediate goods market
- Prices as mark-up over marginal costs
- Imperfect competition in itself does not create non-neutrality of money
- Sticky, and staggered price setting
- The importance of current prices and expected future prices for each firms' pricing behavior
- Aggregate implications:
  - Current prices depend on past prices and expected future prices
  - A role for gradual adjustment of prices and thus persistent effects of money shocks
- Real rigidity versus nominal rigidity
  - High degree of real rigidity increases persistence