

**A dynamic role of monopolistic competition
in the monetary economy**

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abstract

In most new Keynesian research, monopolistic competition distorts the resource allocation and making the room for policy intervention. However, in the inflationary economy of OLG model, it surely makes current prices higher relatively to future ones and reduces the inflation rate. Inflationary economy is dynamically inefficient when the population growth is zero. It implies that lower inflation rate improves economic welfare. Thus the allocation of monopolistic competition dominates Walrasian equilibrium when economy is located at the inflation equilibrium.

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Dynamic inefficiency

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