

Social status, Inflation and Indeterminacy in Models of Endogenous Growth

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Abstract

This paper studies the effects of inflation taxation on capital accumulation in optimizing monetary models of endogenous growth with wealth-enhanced social status concerns and with a cash-in-advance constraint on consumption. We find that there may exist dual balanced-growth equilibria, one of which can be locally indeterminate, another is locally determinate. We also show that higher inflation raises the growth rate in an indeterminate balanced growth path, while its increase lowers the growth rate in a determinate one.

JEL classification: E31, E52, O42.

Keywords: Social status, monetary growth, indeterminacy, increasing returns