Recursive Utility and the Superneutrality of Money on the Transition Path

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Abstract

This paper investigates whether a change in the growth rate of the money supply enhances the rate of capital accumulation in a cash-in-advance monetary model with recursive utility. Although money is superneutral in the steady state, the effect of the growth rate of money supply on the speed of capital accumulation depends not only on the curvature of the felicity, but also on the slope and curvature of the discount rate function. We find that when the discount rate decreases with consumption and the elasticity of marginal utility is greater than unity, inflation yields a slower rate of capital accumulation on the transition path.

Keywords: endogenous time preference, superneutrality, transition path, cash-in-advance, complementarity

JEL classifications: O42

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