Cash-in-advance constraint with social status and endogenous growth

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Abstract

This paper assumes that the cash-in-advance constraint depends on the social status of the agents (the CIA-status constraint henceforth). This is based on the idea that the agents with higher status are more creditworthy and can make purchases with fewer money holdings. Under this assumption, we construct a one-sector AK model and consider two types of CIA-status constraints—Clower-Lucas type and Stockman type. In the case of the Clower-Lucas-type CIA-status constraint, we show that there exists a unique balanced-growth-path equilibrium which is a source and that the money growth and endogenous growth rates are positively related. On the other hand, when we employ the Stockman-type CIA-status constraint, we find that there is a possibility that multiple balanced-growth-path equilibria emerge, and that the effects of money growth on the endogenous growth rate are ambiguous because the sign of the correlation is determined by the magnitudes of the intertemporal elasticity of substitution in consumption and the elasticity of the CIA constraint with respect to social status.

Keywords: Cash-in-advance constraint; Social status; Money growth; Endogenous growth rate

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