Ambiguity, liquidity, and the optimum quantity of money

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Abstract: This manuscript introduces ambiguity to an overlapping generations model with spatial separation, wherein agents rank their contingent consumptions according to non-smooth ambiguity-averse preferences. It is shown that the Friedman rule can be second best when ambiguity is sufficiently large relative to the marginal productivity of capital.

Keywords: Money; Spatial separation; Ambiguity; Friedman rule; Overlapping generations model.

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