A Monetary Search Model with Non-unitary Discounting^{*}

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Abstract

We develop a monetary search model, as in Lagos and Wright (2005), to analyze optimal monetary policy. Our new model is characterized by non-unitary discounting whereby discount rates are different across goods. Through this extension, we show that optimal monetary policy may deviate from the Friedman rule in the following two cases. The first case is when the discount rate of the utility of consuming the goods traded in the decentralized market is relatively low with respect to the disutility of producing the goods traded in the centralized market. The second case is when the discount rate of the utility of consuming the goods traded in the decentralized market is relatively high with respect to the disutility of producing the goods.

Keywords: Non-unitary discounting; Search; Friedman rule

JEL classification: E52, E70

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