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WHEN DOES THE NEOCLASSICAL EQUILIBRIUM MODEL SUPPORT THE MMT'S ASSERTION?: TOWARD AN INTEGRATION OF THE TWO MACROECONOMICS

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《SUMMARY》

This paper examines whether or not a macroeconomic model that assumes optimizing agents, perfect foresight, instantaneous price adjustments, and continuous market clearing can produce the results supporting the assertion of Modern Monetary Theory about economic policies. Specifically, it is shown that, in the equilibrium where commercial banks optimally hold reserves as bubbles in the sense of Tirole (1985) (which I refer to as the B regime), money-financed fiscal expansion is able to boost economic growth without the increase in inflation rate nor that in nominal interest rate. In addition, in the B regime, persistent deflation and low economic growth emerge as equilibrium phenomena. Thus the model of this paper can simultaneously explain the main macroeconomic phenomena observed during Japanese prolonged stagnation such as excess reserve holdings by banks, sustained deflation under expanding money supply, sustained zero interest rate under expanding budget deficits, and sustained low economic growth Furthermore, this paper identifies the conditions under which the economy falls into the B regime and discusses the circumstances under which the efficacy of fiscal expansion increases.

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