

Money Illusion and Business Cycle Fluctuations: Evidence from Japan

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要旨 : We investigate the role of money illusion in business cycle fluctuations by modeling households as misperceiving the inflation rates used to convert nominal variables into real variables. These two forms of misperception operate through distinct channels, affecting labor supply and intertemporal demand, respectively. We estimate a medium-scale DSGE model with money illusion using Japanese macroeconomic data for 1995Q1–2019Q4, measuring the monetary policy stance with a shadow rate. Bayesian estimation shows that the model with money illusion outperforms the rational expectations model, and both current and future inflation misperceptions are well supported by the data. Counterfactual exercises and variance decompositions show that the two forms of inflation misperceptions affect shock propagation through distinct channels.

キーワード : Money illusion; inflation misperceptions; business cycles;

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