Financial structure, financial instability, and inflation targeting

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The results of this paper demonstrate that inflation targeting stabilizes an economy in both competitive and oligopolistic systems.

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Notes

Ninomiya (2007a) formulated a macrodynamic model that incorporates dynamic equations debt burden and inflation. The “lender’s risk” of commercial banks has an important role in his model. However, he did not examine the effect of monetary policy. Ninomiya and Sanyal (2009) examined the effect of the inflation-targeting policy. However, they did not consider the financial structure.

4. Ninomiya (2007b) and Ninomiya and Tokuda (2012) also examined the financial instability and structural change in an open economy.

5. Dalziel (2002a) pointed out that the central banks no longer use the quantity theory of money, the cornerstone of monetarism, in practice. In other words, inflation targeting is not based on the quantity theory of money. Ninomiya

$(\dot{W}/W) + (\dot{n}/n) = (\dot{W}/W) - \sigma_{2}$.

10. At the steady-state equilibrium, $\dot{h}/h = 0$ and $\dot{K}/K = \sigma$. This, in turn, can give us $\pi^{ * } = \mu - \sigma$.

11. The equilibrium value of *y* is $y^{ * } = \sigma /s$. This is the familiar Keynesian formula. This means that the equilibrium income is the product of the long run equilibrium investment and the Keynesian multiplier (1/*s*). This property is exactly the same as Asada (1991).

12. See Ninomiya (2007b) for details on this point.

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Given that $a_{1} a_{2} - a_{3}$ is a smooth and continuous function with ε, we find at least one value ε_{0} at which $a_{1} a_{2} - a_{3} = 0$ and $\partial (a_{1} a_{2} - a_{3})/\partial \varepsilon |_{{\varepsilon = \varepsilon_{0} }} \ne 0$. Furthermore, it also follows that $a_{2} > 0$.

One of the conditions of the Hopf bifurcation theorem is satisfied when $a_{2} > 0$ and $a_{1} a_{2} - a_{3} = 0$. The characteristic equation of dynamic system (S) has a pair of purely imaginary roots $\lambda_{1} = \sqrt {a_{2} } i$ and $\lambda_{2} = - \sqrt {a_{2} } i$ at $\varepsilon = \varepsilon_{0}$.

From the Orlando formation, we obtain

$$a_{1} a_{2} - a_{3} = - (\lambda_{1} + \lambda_{2})(\lambda_{2} +

$$\frac{{\partial (a_{1} a_{2} - a_{3})}}{\partial \varepsilon }|_{{\varepsilon = \varepsilon_{0} }} \ne 0$$

then

$$\frac{{\partial h_{1} }}{\partial \varepsilon }|_{{\varepsilon = \varepsilon_{0} }} \ne 0$$

From the above discussion, all of the conditions in which Hopf bifurcation occurs are satisfied at the point $\varepsilon = \varepsilon_{0}$. Q.E.D.

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