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The Price Level, the Quantity Theory of Money, and the Fiscal Theory of the Price Level

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We consider price level determination from the perspective of portfolio choice. Arbitrages among money balances, bonds, and investment goods determine their relative demands. Returns to real balance holdings (transactions services), the nominal interest rate, and after-tax returns to investment goods determine the relative values of nominal and real assets. Since expectations of government policies ultimately determine the expected returns to both nominal and real assets, monetary and fiscal policies jointly determine the price level. Special cases of the fiscal and monetary policies considered produce the quantity theory of money and the fiscal theory of the price level.

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SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...

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