Discussion of "Optimal inflation in a world of inside money" by Deviatov and Wallace

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Inflation and divisible outside money

- Buyers/sellers live for 3 periods: CM - DM - CM
  - 1^{st} CM: young buyers work $\longrightarrow$ \$
  - DM: B/S matched $\longrightarrow$ produce/consume q
  - 2^{nd} CM: old matched sellers/unmatched buyers consume
- Suppose $\beta = 1$ and money supply constant (FR), then $q = q^*$
- Inflation is bad for this economy

Heterogeneous buyers

- 2 types of buyers: productive/unproductive in 1^{st} CM
- Productive buyers consume q^*; unproductive consume 0
- Inflation: Lump-sum transfer to all young buyers $\longrightarrow$ social welfare can increase
- But, ex post
  - productive buyers worse off; unproductive buyers better off

Inflation and inside money

- Matches with monitored-producer and unmonitored-consumer with money: θ/K^2

- Matches with monitored-consumer and unmonitored-producer with money: $(1-\theta)/K^2 > \theta/K^2$

- In SS can have
  - unmonitored producers get \$1 $\longrightarrow$ inflation tax
  - unmonitored producers get \$1 w.p. less than 1 $\longrightarrow$ no inflation

Ex post effect of inflation?

- Output in monitored-consumer/unmonitored-producer match is higher with inflation than without
  - Monitored buyer seems better off
  - Unmonitored seller better off if value of money increases
- Interesting: Inflation makes everyone better
- Why?

- Difference between no inflation and inflation outcomes?
  - inflation: tax on all money holders
  - no inflation: "tax" on unmonitored producers
  - inflation tax has broader base
- Does result - everyone better off - survive in divisible money world?