Indexing, Inflation, and Economic Policy

Stanley Fischer

•

The MIT Press Cambridge, Massachusetts London, England

# Contents

Preface ix

## I The Costs and Effects of Inflation 1

- 1 Toward an Understanding of the Real Effects and Costs of Inflation (with Franco Modigliani) 7
- 2 Toward an Understanding of the Costs of Inflation: II 35
- 3 Relative Shocks, Relative Price Variability, and Inflation 71
- 4 Inflation, Unemployment, and Public Opinion Polls (with John Huizinga) 123

## II Wage Indexation and Disinflation 149

- 5 Wage Indexation and Macroeconomic Stability 159
- 6 Indexing and Inflation 193
- 7 Contracts, Credibility, and Disinflation 221
- 8 Exchange Rate versus Money Targets in Disinflation 247

#### Contents

## III Indexation in the Capital Markets 263

- 9 The Demand for Index Bonds 271
- 10 On the Nonexistence of Privately Issued Index Bonds in the U.S. Capital Market 301

.

- 11 Call Option Pricing When the Exercise Price Is Uncertain, and the Valuation of Index Bonds 321
- 12 Welfare Aspects of Government Issue of Indexed Bonds 333

### IV Policy Issues 357

- 13 Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule 365
- 14 On Activist Monetary Policy with Rational Expectations 383
- 15 Dynamic Inconsistency, Cooperation, and the Benevolent Dissembling Government 413
- 16 Seigniorage and the Case for a National Money 431
- 17 Israeli Inflation and Indexation 453

Index 487