



International Finance Discussion Papers: Optimal Fiscal and Monetary Policy with Costly Wage Bargaining (Paperback)

By David M Arseneau, Sanjay K Chugh

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.Costly nominal wage adjustment has received renewed attention in the design of optimal policy. In this paper, we embed costly nominal wage adjustment into the modern theory of frictional labor markets to study optimal fiscal and monetary policy. Our main result is that the optimal rate of price inflation is highly volatile over time despite the presence of sticky nominal wages. This finding contrasts with results obtained using standard sticky-wage models, which employ Walrasian labor markets at their core. The presence of shared rents associated with the formation of long-term employment relationships sets our model apart from previous work on this topic. The existence of rents implies that the optimal policy is willing to tolerate large fluctuations in real wages that would otherwise not be tolerated in a standard model with Walrasian labor markets; as a result, any concern for stabilizing nominal wages does not translate into a concern for stabilizing nominal prices. Our model also predicts that smoothing of labor tax rates over time is a much less quantitatively-important goal of policy than standard models predict. Our...



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