



Research Working Papers

Janus's Money Demand and Time Inconsistency: A New Impossibility Theorem?

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A new model of money demand incorporates consumers' past and future habits to shed light on time inconsistency in monetary policy.

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We derive a general “Janus” money demand function that reflects backward- and forward-looking habit formation. The scope of our model allows us to explain the breakdown of money-demand functions and reduced policy relevance of monetary aggregates. Integrating our Janus money demand into a Barro-Gordon framework reveals new insights for time inconsistency in monetary policy and a new impossibility theorem.

JEL classifications: E41, E5, E61, E71.

Article Citations

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