

# Price Norm and Monetary Policy

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Real interest rate . key price in the model

↳ price of government bonds relative to  
service.  $\frac{p(t)/p(t)}$ , given by price nom

$$r(t) = i(t) - \pi(t)$$

↑  
monetary policy

Price nom: prices grow at constant inflation rate  $\pi$ .

$$p(t) = p(0) \cdot \exp(\pi \cdot t)$$

$$\pi(t) = \frac{\dot{p}(t)}{p(t)} = \pi$$

Monetary policy: - central bank follows interest rate

peg

$$i(t) = \bar{i}$$

- central bank is subject to

zero-lower-bound constraint:  $i \geq 0$ .  
(ZLB)

Real interest rate fixed

$$r = \bar{r} = \bar{i} - \pi$$

Assumption:  $\bar{r} < \bar{s}$ , but  $\bar{r}$  can be  $< 0$