accountability 150
accounting service firms 133
accounting systems 136–8, 140
activist monetary policy
  case against 63, 65
  inflation–unemployment trade-off policy 70, 80–82
  Lucas critique and policy evaluation 80–84
  and stabilization policy, benefits of 84–5
  and time inconsistency problem 87–8, 89–93
adverse selection 116–18, 126–7, 136–7
adverse selection mitigation 122–3, 126–7, 132, 136
agency costs 139
agency problems 131–3, 140
  see also separation
aggregate demand
  in classical economy’s demand side 59–60, 61–2, 64
  and money stock changes in classical economy 61–2
  and wage stickiness 76
aggregate demand shocks 75
aggregate output, and time inconsistency problem 90
aggregate supply
  in classical economy’s supply side 56–8, 60, 61, 62–3, 64
  in Keynesian economy 67–8, 69–70
  Lucas critique and Phillips Curve breakdown 81
  and negative technology shocks in classical economy 62–3, 64
Akerlof, George 75, 79, 136
Alchian, Armen 17
Alesina, Alberto 107–8
animal evidence, in maximizing-behavior axiom 18–19
appointed political agents, and time inconsistency problem 111
‘as if’ principle 16–17, 18–19, 69
asset prices 68–9
asset weights, in monetary service measurement 100–101
assets, ‘moneyness’ of 35–7
assumptions, in models 10, 11
  see also axiomatic approach;
  maximizing-behavior axiom
asymmetric information
  and accounting systems 136–8, 140
  and adverse selection 116–18, 136
  managers’ incentives for strategic use of 138, 140–41, 142
  and moral hazard 118–20, 140–41, 142
  and tax policy 142
asymmetric information mitigation
  and adverse selection in financial intermediaries 122–3, 125
  and banks 124–6, 138
  and governance of financial intermediaries 124–6
  and moral hazard in financial intermediaries 123–4
auditing 133, 137, 138
axiomatic approach 15–16
  see also maximizing-behavior axiom
backward induction, and time inconsistency problem 90
banks
  asymmetric information mitigation 124–6, 138
debt finance 140, 141, 142
in model economy 28–31
monitoring 141, 142
restriction reductions and economic performance 146–7
see also central bank independence (CBI); checkable deposits, ‘moneyness’ of; commercial banks; conservative banker; investment banks; relationship banking; universal banks
bargaining sets, and efficiency wage theories 75
Barlevy, Gadi 85, 107
Barnett, William 100
barter economy 42–5, 46, 47, 49, 50
see also commodity money
Baye, Michael 22
Becker, Gary 15, 22, 23
benchmark assets, in monetary service measurement 100, 101
benevolent dictators, and time inconsistency problem 90–93
Berman, Eli 20, 21, 24
Besanko, David 23, 31
bias, omitted variable 12
Blanchard, Olivier Jean 68, 71
boards of directors 139–40
Brown, James 138
Brunner, Karl 70
budget constraints
barter economy 43, 44
and maximizing-households in model economy 25, 26, 27, 30
see also cash constraints
business cycles, real (RBCs) 62–3, 64, 65, 66
see also cyclical output; cyclical unemployment
capital, higher-value uses 115, 146
capital markets 30–31, 136, 137
capital structure
debt finance and governance services 140–43
equity finance and governance services 139–40, 141–2
and tax policy 142–3
capitalists 149
‘capture’ 131–3, 140
see also separation
cash constraint channel 146, 147
cash constraints
and asymmetric information 120
and debt finance 140–43
and dividends tax reduction 142–3
and equity finance 139–40, 141–2
and financial development 149
and maximizing-firms in model economy 30–31, 115
and project-constrained lenders 115, 145–6
see also budget constraints
cash flows 140–41
causation 12, 13, 107
central bank independence (CBI) 106–8
CH (clearinghouse), in formal model of superior monetary equilibrium 46, 47, 49, 50, 107
checkable deposits, ‘moneyness’ of 37
Christiano, Lawrence 77, 78, 79
cigarettes, as currency 46, 50
classical economy, money in activist monetary policy, case against 63, 65
demand side 57–60
equilibrium 60–61
money, prices and real activity 61–3, 64
supply side 53–7, 58
clearinghouses (CH), in formal model of superior monetary equilibrium 46, 47, 49, 50, 107
collateral requirements, and adverse selection mitigation 122
commercial banks 132–3, 134, 138
commitment 21, 24, 39, 40, 89–90, 102–6
commodity money 36–7, 38, 39
compensation schemes, managers’ 138, 140
competition 146, 147, 149
concentration of ownership 139, 150
confidence
of financiers in firms 136, 137, 146
in money as exchange medium 49
conflicts of interest 131–3, 140
see also separation
Congress 110, 111
conservative banker 106
constituents’ rational expectations, and time inconsistency problem 87, 89–90, 91, 92–3, 106–7
constraints 18, 21
see also budget constraints; cash constraints; ‘No shirking constraint’ curve; project constraints; technology constraints
consultation 133
consumer prices 39, 40, 53
consumption 84–5
consumption bundles 42, 43, 44
control, separation from ownership 139–40, 146, 147, 150
corporate governance
accounting systems and asymmetric information 136–8
capital structure and governance services 139–43
reforms, and efficacy of Glass-Steagall Act (1933) 131–3
correlation 12, 107
costs 49, 141
see also agency costs; currency costs; governance costs; information costs; marginal costs; opportunity costs; resource costs; transaction costs; transportation costs; user costs
CPI (consumer price index) 53
creative destruction 150
credibility 21, 24, 103, 138
credit services 78
see also banks; debt finance
currency 35, 100–101
see also barter economy; exchange and exchange media; monetary economy; money
currency service benefits 38–9
currency service costs 38, 39
cyclical output 82, 83
cyclical unemployment 75
debt finance 140–43
see also banks; credit services; debt restructuring
debt restructuring 123–4
debt violations 141
delegation 105–6, 109–11
demand
in barter versus money endowment economy 44
in barter versus money production economy 48
in classical economy 57–62
law of 26, 31
and Lucas critique and Phillips Curve breakdown 82
and maximizing-households in model economy 25–7
see also aggregate demand; aggregate demand shocks; labor demand
deposit insurance, United States 126–7, 128–31
Devlin, Keith 15
disclosure of financial performance 136, 137, 138
distributional issues 149, 150
dividends tax reductions 142–3
‘double coincidence of wants,’ in barter economies 42–3, 44, 45, 46
Drazen, Allan 102, 106, 107
dynamic economy, money in see classical economy, money in;
Keynesian economy, money in;
monetary policies
economic fluctuations see aggregate demand shocks; cyclical output;
cyclical unemployment; ‘liquidity crises’; monetary policy shocks;
negative supply shocks; real activity; real business cycles (RBCs); technology shocks
economic method of inquiry
advantages of 22–3
described 15–16
foundation see foundation of economic method of inquiry
importance 8–9
model economy see model economy
modeling 9–14
see also maximizing-behavior axiom
economic models see model economy;
modeling
economic performance 137–8, 143, 145–50
economic stability 148
economic well-being see welfare
efficiency, in barter versus money
endowment economy 48
efficiency wage theories 70–75, 79
efficient market hypothesis 68–9
effort, and efficiency wage theories 71,
72–4
egoists, in models 9
see also maximizing-behavior axiom
Eichengreen, Barry 123–4
elected political agents, time
inconsistency problem 111
employment 67–8
see also efficiency wage theories;
employment equilibrium;
employment policies; labor
demand; labor-manager
coalitions; labor markets; labor
prices; labor supply; nominal
wages; real wages;
unemployment; wage
agreements; wage stickiness
employment equilibrium 56–8, 60,
74
employment policies 68, 70, 80–82
endowment economies 42–5, 46–7
enforceable rules, monetary services
103
entrepreneurs 146, 148, 149
‘envelope theorem’ 75
equity finance 139–40, 141–2
evaluation, of models 10–11, 17–21
evaluation services 141, 142
evidence, in modeling 11–13, 18–21
exchange and exchange media 35–40,
50, 99–101
see also barter economy; monetary
economy; money
expectations-augmented Phillips Curve
69–70, 80–81, 90–91
Falaschetti, Dino 111, 138, 139
Fama, Eugene 125
Federal Open Market Committee
(FOMC) 109, 110, 111
Federal Reserve Board (FRB) 109,
110, 111, 142
Federal Reserve System 99–100,
109–11
fei 36–7
fiat money 37–9, 40
financial crises see ‘liquidity crises’;
monetary policy shocks; pensions
withdrawal; emerging (US); savings and
loan crisis (US);
financial development, and economic
performance 145–50
financial intermediaries
adverse selection 117, 126–7,
136–7
adverse selection mitigation 122–3,
126–7, 132
and disclosure of financial
performance 136, 137
financial structure 122–4
governance see governance of
financial intermediaries
monetary policy shocks, effect on
credit services 78
moral hazard 118–20
moral hazard mitigation 123–4, 127,
140
project constraints 115
see also accounting service firms;
banks; credit services; debt
finance; equity finance;
monetary services
financial performance disclosure, and
financial intermediation 136, 137,
138
financial statements 133, 137, 138
financial structure of financial
intermediaries 122–4
firm-specific investment 141–3
firms, maximization see profit-
maximization
fiscal versus monetary authorities
106–7
see also tax policy
Fischer, Stanley 71
flexible rules, monetary services
103
FOMC (Federal Open Market
Committee) 109, 110, 111
foundation of economic method of
inquiry
advantages of economic method
22–3
axiomatic approach 15–16
Index

maximizing-behavior axiom 16–17
positive versus normative analysis 21–2
prediction from maximizing-behavior axiom 17–21
FRB (Federal Reserve Board) governors 109, 110, 111, 142
free cash flows 140–41, 142
free riders 139, 141, 142
Friedman, David 7, 16
Friedman, Milton 10–11, 23, 36, 37, 41, 69–70, 77
full employment policies 68, 70
games, and time inconsistency problem 88–9
Gibbard, Alan 105–6
Glass-Steagall Act (1933) 131–3, 138
governance, corporate see corporate governance
governance costs 141, 142–3
governance of financial intermediaries
asymmetric information 126–7, 129, 131
market discipline versus public regulation 132–3
regulatory 'mistakes,' repetition of 127–33
governance of money and capital markets 28–31
governance services, and capital structure 139–43
Great Depression (US) 126–7
Greenspan, Alan 142
Hall, Robert 75
hangman game, and time-inconsistency problem 88–9
higher-value uses, capital 115, 146
Holmstrom, Bengt 137–8
hostile take-overs 141–2
households, maximization see maximizing-households
housing units, 'moneyness' of 35
human evidence, in maximizing-behavior axiom 19–20
hypothesis-testing 11–13, 14
‘idea rich’ entrepreneurs 146, 149
incentives 137, 138, 139, 140–41, 142
indifference curve 25–7
induction, backward, and time inconsistency problem 90
industrial services 38, 39
inferior barter equilibrium 42–5
inferior economic performance 148–50
inflation
and central bank independence (CBI) 107–8
and fiat money supply 39, 40
and Keynesian economy's supply side 67, 68
and Lucas critique and Phillips Curve breakdown 81, 82, 84
and money in classical economy 61–2
and Phillips Curve 68, 69, 70, 80–82, 83, 84
and time inconsistency problem 90, 91, 92–3, 111
inflation–unemployment trade-off policy 70, 80–82
information see asymmetric information; asymmetric information mitigation;
information costs; information evaluation; information generation; price information;
private information
information costs 137
information evaluation 125–6
information generation 125
input prices 67
institutions, monetary services 102–6
insulation
and delegation of fiscal authority 106–7
and delegation of monetary authority 105–6
Federal Reserve System 110, 111
intellectual property protection 124
interest payments 142
investment, and stabilization policy 85
investment, firm-specific 141–3
investment banks 132–3, 134, 138
involuntary unemployment, and efficiency wage theories 72–4, 75
irrationality, and prediction 16, 17
iso-profit curve, maximizing-firms in model economy 27, 28, 29, 30

James, Christopher 125, 141
Jayaratne, Jith 148
Jensen, Michael 140

Kane, Edward 138
Kaplan, Steven 137–8
Keen, Edward 110

Keynesian economy, money in efficiency wage theories 70–75, 79
monetary transmission, other mechanisms 76–8
nominal rigidities, evidence against 76
supply side 67–70
Klenow, Peter 76, 77
Kroszner, Randall 132–3, 134, 138
Kydland, Finn 103

labor see efficiency wage theories; employment; employment equilibrium; employment policies; labor demand; labor-manager coalitions; labor markets; labor prices; labor supply; nominal wages; real wages; unemployment; wage agreements; wage stickiness
labor demand 53–6, 57, 62–3, 67–8
labor-manager coalitions 149–50
labor markets in classical economy’s supply side 53–6, 57, 62–3, 64
and efficiency wage theories 71–3 equilibrium 56–8, 60, 74
labor prices 53, 54–5, 56, 57, 67
labor supply 56, 57, 67, 72–4
law of demand 26, 31
laws, monetary services 102
see also Glass-Steagall Act (1933); Sarbanes-Oxley Act (2002) (SOX)
leisure 53, 56, 72–3
‘lemons’ problem see adverse selection
‘liquidity crises’ 127
living standards 148
loan and savings crisis (US) 128–31
Lucas, Robert E. Jr. 11, 80, 84, 85, 107, 108
see also Lucas critique
Lucas critique 80–85, 107, 108
Lummer, Scott 126, 134, 141
manager–labor coalitions 149–50
managerial expertise channel 146, 147
managers incentives, for using asymmetric information 138, 140–41, 142
skills, and financial development 146
and social democracies 149–50
marginal analysis, in maximizing-firms in model economy 27
marginal benefits in classical economy’s demand side 59, 60
commodity money 38
and efficiency wage theories 72–3
fiat money 38
marginal costs in classical economy’s demand side 59, 60
in classical economy’s supply side 54
commodity money 38
and efficiency wage theories 72–3
fiat money 38
and maximizing-households in model economy 26
marginal productivity 54, 62–3
marginal utility, and maximizing-households in model economy 26
market discipline 132–3, 137–8
market incentives 137, 139
market opportunities 146
maximizing-behavior axiom ‘as if’ principle 16–17, 18–19, 69
efficient market hypothesis 68–9 in models 9
and Phillips Curve 68, 69–70
predictions 16, 17–21
self-evidence 11, 17
and time inconsistency problem 87, 88–93
see also maximizing-households; maximizing-managers; profit-maximization
maximizing-firms see profit-maximization
maximizing-households
in classical economy’s demand side 59–60
in classical economy’s supply side 56
and demand curve in model economy 25–7, 30
and efficiency wage theories 72–3
and money 30
maximizing-managers 138, 140–41
McConnell, John 126, 134, 141
McFadden, Daniel 149
meaningfulness, of models 11
Meltzer, Allan H. 70
mimicking, problem of 105
model economy
cash constraints 30–31, 115
governing money and capital markets 28–31
maximizing-firms and supply curve 27–8, 29
maximizing-households and demand curve 25–7
project constraints 30, 115
modeling 9–14
see also model economy
Mody, Ashoka 123–4
monetary economy 43–4, 46–7, 48, 49, 50
monetary policies 70, 76
see also activist monetary policy; inflation–unemployment trade-off policy; monetary policy shocks; money supply changes; optimal monetary policies; passive monetary policy; stabilizaton monetary policy; tax policy
monetary policy shocks 77, 78
monetary services
institutions and commitment 102–6
measurement 99–101
see also accounting service firms; auditing; banks; consultation; credit services; debt finance; equity finance; evaluation services; financial intermediaries; monitoring services
monetary versus fiscal authorities 106–7
money
confidence in monetary system 49
in a dynamic economy see classical economy, money in; Keynesian economy, money in; monetary policies
in model economy 28–31
monetary economy 43–4, 46–7, 48, 50
‘moneyness’ 35–7
quantity theory 58–9
and real activity in classical economy 62–3, 64
in static economy see static economy, money in
turnover 58–9
money stock
in classical economy’s demand side 59, 61–2
in Keynesian economy’s supply side 67–8
simple sum measures of monetary services 99–100
and velocity of money 58–9
money supply changes
in classical economy’s demand side 61–2
commodity versus fiat money 39, 40
costs 49
and efficiency wage theories 75
in Lucas critique and Phillips Curve breakdown 83
and output 77
money supply shocks 77, 78
monitoring services 139, 140, 141, 142
moral hazard
and debt finance 140–41
and deposit insurance 127, 129, 131
described 118–20
and dividends tax reductions 142–3
and equity finance 140
and financial intermediaries 118–20
and social democracies 150
moral hazard mitigation in financial intermediaries 123–4, 127, 140
multiplicity, problem of 104
Muth, John 80
negative monetary policy shocks 77, 78
negative supply shocks 63
negative technology shocks 62–3, 64, 66
net worth 123, 129, 130, 131
‘No shirking constraint’ curve 73, 74
nominal prices, and time inconsistency problem 90
nominal rigidities
defined 51
and efficiency wage theories 71–5
in Keynesian economy’s supply side 67
nominal wages
and efficiency wage theories 71–2, 73, 74, 75
and money in a classical economy 53, 54
non-audit services 137, 138
non-equity stakeholders 141, 143
non-human evidence, in maximizing-behavior axiom 18–19
normative analysis versus positive analysis 21–2
omitted variable bias 12
opportunism 88, 111, 143
see also free riders; moral hazard
opportunity costs 21, 27
opportunity set 44, 46
optimal contracts, monetary services 102–3
optimal monetary policies 87, 89, 90, 91
Orlando, Michael 138
output
in classical economy’s demand side 59, 60
in classical economy’s supply side 57, 58
and financial development 146, 147
and Lucas critique and Phillips Curve breakdown 81, 82, 83
and money stock in classical economy 61–2
and negative technology shocks in classical economy 62–3, 64
and Phillips Curve breakdown 81
and time inconsistency problem 90, 91
and velocity of money 58–9
output prices 28, 29, 67
ownership
centration 139, 150
separation from control 139–40, 146, 147, 150
passive monetary policy 63, 65
Pension Benefit Guaranty Corporation (PBGC) 131
pensions crisis, emerging (US) 131
permanent output, Lucas critique and Phillips Curve breakdown 82, 83
Phillips Curve
described 67–8, 80
expectations-augmented Phillips Curve 69–70, 80–81, 90–91
and Lucas critique 80–85, 107, 108
and monetary policy 70, 80
and rational expectations 68, 69–70, 80–81
pieces of paper (POP), in formal model of superior monetary equilibrium 46, 47, 49, 50
Poirier, Dale 9
politics
and Federal Reserve System 110–11
and financial development 148–50
and regulatory ‘mistakes’, repeated 131
and rule enforcement of monetary services 103
and time inconsistency problem 111
see also employment policies; monetary policies
POP (pieces of paper), in formal model of superior monetary equilibrium 46, 47, 49, 50
positive analysis versus normative analysis 21–2
POWs (prisoners of war), economy of 46, 50
predictions, from models 10–13, 16, 17–21
Prescott, Edward C. 87, 103, 145
price changes 81–2, 83, 90, 91
price indexes 53, 58–9
Index

price information 68–9, 83
prices
in classical economy’s demand side 59, 60, 61, 62
in classical economy’s supply side 53, 54–5, 56, 57
financial intermediation and transparency of firms 137
in Keynesian economy’s supply side 68, 69
and Lucas critique and Phillips Curve breakdown 82, 83
and maximizing-firms in model economy 28, 29, 30
and maximizing-households in model economy 26–7
and money stock in classical economy 61–2
see also asset prices; consumer prices; input prices; labor prices; output prices; price changes; price indexes; price information; price stickiness; relative prices; strike prices
principal-agent problem 131–3, 140
see also separation
prisoners of war (POWs), economy of 46, 50
private information 124, 126
production economy, barter versus money 47–8
production function, in classical economy’s supply side 53, 54
profit-maximization
and cash constraints 30, 115, 116
in classical economy’s supply side 53–7, 62–3
and efficiency wage theories 71–2, 74
and financial development 146, 147
as incentive for disclosure by financial intermediary demander 137
and project constraints 115
supply curve 27–8, 30
profits 53, 54, 75
see also iso-profit curve, maximizing-firms in model economy; profit-maximization
prohibitions, in maximizing-behavior axiom 21
project constraints 115, 146
‘project rich’ firms 30, 115, 146
property rights 149
see also intellectual property protection; ownership
public regulation see regulation, public ‘put options’ 128–31
quantity theory of money 58–9
Radford, R.A. 46, 50
Rajan, Raghuram 132–3, 134, 136, 138, 147, 149, 150
random inflation, and Lucas critique and Phillips Curve breakdown 81
rational expectations
and Lucas critique and Phillips Curve breakdown 82, 83
and Phillips Curve 68, 69–70
and time inconsistency problem 87, 89–90, 91, 92–3, 106–7
rationality see maximizing-behavior axiom
real activity
and central bank independence (CBI) 107–8
defined 113
and deposit insurance 127
and Lucas critique and Phillips Curve breakdown 81–2, 83
and money in classical economy 62–3, 64
and money supply 77
and Phillips Curve breakdown 68–70
and time inconsistency problem 90
real business cycles (RBCs) 62–3, 64, 65, 66
see also cyclical output; cyclical unemployment
real cash balances, in classical economy’s demand side 59, 60
real wages
in classical economy’s supply side 55–8, 60, 62–3, 64
and efficiency wage theories 71–2, 73, 74
in Keynesian economy’s supply side 67, 68, 69, 70
and money supply shocks 77, 78
negative monetary policy shocks,
effect on 77, 78
reduced form evidence 11–12, 13, 14,
77–8
regulation, public 132–3, 137–8
see also laws, monetary services;
regulatory 'mistakes', repetition
of; rules, monetary services
regulatory 'mistakes', repetition of
127–33
relationship banking 125, 126
relative price changes, Lucas critique
and Phillips Curve breakdown 82,
83
relative prices 38, 82, 83
repeated interactions of monetary
authorities 103–5, 141
repetition, regulatory 'mistakes' 127–33
reputation 104
resource costs 38, 39
restrictive covenants, and moral hazard
mitigation 123
rigidities 51
see also nominal rigidities
risk
and deposit insurance 127, 128, 129,
130
and moral hazard 118–20, 123, 127
risk aversion, and stabilization policy
84–5
Roe, Mark 149–50
Rogoff, Kenneth 106, 107
rules, monetary services 102–3
see also laws, monetary services;
regulation, public
sacrifices, and maximizing-behavior
axiom 21
Sarbanes-Oxley Act (2002) (SOX) 133,
137, 138
Satterthwaite, Mark 105–6
savings and loan crisis (US) 128–31
Schelling, Thomas 105–6
Schleifer, Andrei 69, 140, 141–2
Schwartz, Anna Jacobson 77
securities markets 137–8
see also capital structure
seignorage see money supply changes
self-evident assumptions 10, 11, 17
separation
auditing and consultation 133
commercial and investment services
132, 133, 138
ownership and control 139–40, 146,
147, 150
see also conflicts of interest
shirking, and efficiency wage theories
72–4, 79
shocks 79
see also aggregate demand shocks;
'liquidity crises'; monetary
policy shocks; negative supply
shocks; pensions crisis,
emerging (US); savings and
loan crisis (US); technology
shocks
simple sum measures, monetary
services 99–100
skilled managers 146, 147
social democracy 149–50
SOX (Sarbanes-Oxley Act 2002) 133,
137, 138
specialization, in barter versus money
production economy 48
specialized managers 146, 147
'specific' investments 141–3
stabilization monetary policy 84–5
stagnation 70
stakeholder investments 141, 142–3
stakeholders, non-equity 141, 142–3
static economy, money in
evolution of exchange media 37–9,
40
inferior barter equilibrium 42–5, 46,
47, 50
money as exchange facilitator 35–7
superior monetary equilibrium 46–7,
50
stickiness see price stickiness; wage
stickiness
Stock, James 76, 77
store of value 40
Strahan, Philip 148
strike prices 128–9
structural evidence, in modeling 13, 14
sub-optimal monetary policies, and
time inconsistency problem 87, 89,
90, 91, 92–3
Summers, Lawrence 107–8, 141–2  
superior monetary equilibrium 46–7  
supply  
in barter versus money endowment  
economy 44  
in barter versus money production  
economy 48  
in classical economy 53–7, 58, 60,  
61, 62–3, 64  
in a Keynesian economy 67–70  
and maximizing-firms in model  
economy 27–8, 29  
see also aggregate supply; labor  
supply; money supply changes;  
money supply shocks; negative  
supply shocks; Phillips Curve  
surprise inflation, and unemployment  
in Phillips Curve 69, 70  
systematic inflation, in Lucas critique  
and Phillips Curve breakdown 81  
systematic risk 127–31  
take-overs, hostile 141–2  
tax policy 142–3  
see also fiscal versus monetary  
authorities  
technology  
in barter versus money endowment  
economy 48  
in classical economy’s supply side 53,  
60  
and financial development 146, 147  
technology constraints 27, 30  
technology shocks 62–3, 64, 66  
time inconsistency problem  
and active monetary policy, reasons  
for 87–8, 89–93  
and central bank independence  
(CBI) 107  
described 87, 88–9  
and Federal Reserve System 111  
and inflation 90, 91, 92–3, 111  
and repeated interaction of  
monetary authorities 103–4  
and rule enforcement of monetary  
services 103  
transaction costs 30, 43–4, 45, 46,  
48  
transparency 136, 137, 141  
transportation costs 38  
unemployment  
and inflation trade-off policy 70,  
80–82  
 involuntary, and efficiency wage  
theories 72–4, 75  
and Lucas critique and Phillips  
Curve breakdown 81, 90  
and Phillips Curve 68, 69, 70,  
80  
and time inconsistency problem  
90, 91  
unexpected inflation, and Phillips  
Curve breakdown 81, 90  
unexpected price changes, in Lucas  
critique and Phillips Curve  
breakdown 81–2  
United States  
bank restriction reductions and  
economic performance  
146–7  
commitment problems, commodity  
versus fiat money 39, 40  
corporate governance 137–8  
deposit insurance 126–7, 128–31  
money supply and output 77  
repeated regulatory ‘mistakes’  
128–33  
see also Congress; Federal Open  
Market Committee (FOMC);  
Federal Reserve Board (FRB);  
Federal Reserve System  
universal banks 132–3, 138  
user costs 100, 101  
validity, of models 10–11, 13  
value 40, 128–9  
velocity of money 58–9  
veto players 111  
Vickers, John 105, 106  
Vishny, Robert 140  
Vives, Xavier 123, 140  
wage agreements 67, 78  
wage stickiness 67, 68, 76  
wages see efficiency wage theories;  
nominal wages; real wages; wage  
agreements; wage stickiness  
Watson, Mark 76, 77  
weighted aggregates, in monetary  
service measurement 100–101
welfare
barter versus money in production economy 47–8, 49
financial development and living standards 148
financial development and politics 148–50
and Glass-Steagall Act (1933) 131–3, 138
inferior barter economy 42–5, 50
stabilization policy 84–5
superior monetary economy 46–7
and time inconsistency problem 90, 91, 92

welfare maximization, and time inconsistency problem 90, 91, 92, 93
well-being see welfare
well-developed financial systems 30–31, 137, 147–8
Wier, Peggy 125
Willett, Thomas D. 110

Yap 35–7
Yellen, Janet 75, 79

Zingales, Luigi 136, 147, 149, 150