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Chapter 4 : Theory of Inflation Determination

two key questions

* What drives LR inflation

* What drives cyclical relationship of inflation

Business Cycle Perspective & Inflation Dynamic

* Keynesian View

↑

How it fails during oil price shocks

& introduce (1) Expectation-augmented PC

(2) Modified PC + Adaptive expectation

* Policy implementation \Rightarrow rational expectation

Overview Theory of inflation determination

- LR theory = Quantity theory of money
- Business Cycle
 - * Keynes
 - * Phillip Curve
 - Expectation augmented PC
 - modified PC
 - < adaptive expectation >
- Policy Implication * rational expectation