5/12 Prof Tore Ellingsen's title+abstract

Title: A Monetary Theory of Price Adjustment

Abstract:
In a canonical monetary macro model, the supply of nominal assets affects the price level. We introduce price posting and search frictions. Despite costless price adjustment, insufficient search incentives prevent market clearing, and there is a finite interval of constant-inflation price paths. Under stable inflation expectations, small shocks to technology or policy affect quantities but not prices. However, large enough shocks – or accumulations of smaller shocks - move the entire interval of equilibrium price paths beyond the previous path, forcing price adjustment. Even if shocks are temporary, these price level changes are permanent. Absent a policy response, excess supply persists.