

Time Inconsistency and the Long-Run Effects of Inflation*

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Abstract

Recent work by Laibson (1997) identifies that individuals' time discount factors evolve over time. This leads to a time-inconsistency problem in which individuals' savings are distorted. The objective of this paper is to study the long-run effects of inflation in the presence of a time-inconsistency problem. Because of the inability to commit to savings, the cost of inflation is likely to be more severe than previously acknowledged.

Keywords: Inflation, Hyperbolic Discounting, Time Inconsistency

JEL Codes: E41, E52, E21

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