Abstract

Monetary theory and policy are part of intertemporal public finance. The lecture reviews some interesting recent developments.

The two ghosts are the venerable liquidity trap and the Pigou effect or real balance effect. The eccentricities are negative nominal interest rates and the helicopter drop of base money - two unconventional policies for stimulating consumer demand even when nominal interest rates, short and long, present and future, are at their zero lower bounds.

The fallacy is the so-called Fiscal Theory of the Price Level, a logically inconsistent theory of the link between the government budget and the general price level.

The mirage is the prediction that financial deregulation and technical change in the payments and settlements technology (e-money etc.), will cause monetary policy to lose its capacity to influence even nominal economic variables.

Mythos refers to the independent central bank.

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