Liquidity Constraints and Non-market Clearing: A Recipe for Recession?

John Driffill and Marcus Miller

The Bank of Finland/CEPR conference

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Fitzwilliam College
University of Cambridge

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  - Crucial: nominal *and* real rigidities

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- Driffill and Miller: Need a model that is a synthesis between DGE and orthodox macroeconomics
  - Crucial: nominal *and* real rigidities
  - How will an unanticipated liquidity shock affect corporate investments?

Brief Summary of Kiyotaki and Moore

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  - Unproductive entrepreneurs hold both money and equity, precautionary demand for money

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- If negative shock on φ, *Pigou effect* stabilises markets: $p \downarrow \;\Rightarrow\; c \uparrow$

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  - q_t and the savings portfolio satisfies KM's intemporal constraint

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- Quantitative Easing is efficient
  - increases the liquidity of investing entrepreneurs, stabilises I and q

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- Looking forward to reading the next version!