

Chapter 4

Conclusion

This paper re-examines Mansoorian and Mohsin's model (2006) with CIA constraints on consumption by taking the relationship between consumption and labor in the utility function into account. Besides, we further analyze the effects of a pre-announced monetary policy. The results drawn from this study can be summarized as follows.

First, the steady-state effects of an increase in the inflation rate are consistent with the results in Mansoorian and Mohsin except for consumption. There is an ambiguous change in consumption depending on the relationship between consumption and labor in the utility function. If consumption and labor are with a large degree of substitution, a rise in the inflation rate leads to an increase in the consumption.

Second, there is an impact decrease in the shadow price of investment when the policy with a higher inflation rate is announced, and the degree of such decrease is inversely related to the time length between the announcement and the realization of policy. Prior to the execution of the policy, the capital stock decumulates and the current account may go through a deficit or surplus first and then deficit along the unstable trajectories depending on the relative impact between the change in the shadow price of investment and the shadow price of assets on the $\dot{b} = 0$ locus. Meanwhile, the dynamic movements of the shadow price of investment are different depending on whether the relationship between consumption and labor is independent, substitute or complement. After the implementation of a higher inflation targeting

policy, the capital stock continues to decumulate and the current account accumulates along the stable paths toward the new equilibrium. It seems that with diverse relationship between consumption and labor, the transitional dynamics with an anticipated permanent increase in the inflation rate in our study are quite different from the dynamic path in Mansoorian and Mohsin(2006). This difference worths to study further in the future.