

Money Flow in a Dynamic Economy
by
Lawrence Marsh

discussion
by
Sylvérie Herbert
Cornell University

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Circular flow of money

- ▶ Money navigates in a circular flow like blood in the body
 - ▶ Households buy goods with money (product market) which yields revenue for businesses
 - ▶ Businesses hire/buy inputs (labor, capital), providing income to households (resource market)
- ▶ Leakages
 - ▶ Taxes as leaks but money can be redistributed
 - ▶ Financial institutions through savings of households and businesses, but money can be injected through investment and loans
 - ▶ Foreign sector injecting and leaking goods
- ▶ Information flow

Impaired money flow

- ▶ Impaired money flow due to transition from variable to fixed costs economy (labor to capital intensive), tax system
- ▶ Destabilizing effect if the economy is away from the equilibrium after a shock
- ▶ Hinder development (investment in education,...)

Policy implications for managing the cycle

- ▶ Coordination of fiscal and monetary policy
- ▶ Unconventional monetary policy: helicopter drop
 - ▶ Implementation of My America account vs Fed buying 0 interest government bond with unlimited maturity?
- ▶ Information flow (costly acquisition): personalized scorecards (BOE)
- ▶ Political economy