Does a constant money growth rule help stabilize inflation? : experimental evidence

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Abstract. We design and study the behavior of experimental overlapping generations economies in which the government either finances real deficits through seignorage or allows money supply to grow at a predetermined rate. We provide experimental data to study the conjecture that a “simple” rule, such as a constant growth of the money supply, can help coordinate agents’ beliefs and help stabilize the economy. Our experimental data provide weak evidence for such a conjecture. The underlying stability parameters of the economy provide a better explanation of observed price volatility than differences in the policy do. In particular, in relatively unstable environments, subjects base their forecasts more on observed fluctuations than on the announcements of stable monetary policies.