MACROECONOMIC DYNAMICS

Volume 17, Number 6, September 2013

Contents

Special Issue on Equality, Public Insurance, and Monetary Policy
Edited by Benoît Julien and Pere Gomis-Porqueras

Introduction to the Macroeconomic Dynamics Special Issue on
Inequality, Public Insurance, and Monetary Policy
Pere Gomis-Porqueras and Benoît Julien

ARTICLES

Income Inequality, Mobility, and the Welfare State: A Political Economy Model
Luca Bossi and Gulcin Gumus

Poverty Traps and Inferior Goods in a Dynamic Heckscher–Ohlin Model
Eric W. Bond, Kazumichi Iwasa, and Kazuo Nishimura

Minchung Hsu and Junsang Lee

Means-Tested Age Pensions and Homeownership: Is There a Link?
Sang-Wook (Stanley) Cho and Renuka Sane

Monetary Policy, Inflation, and Unemployment: In Defense of the Federal Reserve
Nicolas Groshenny

Optimal Monetary and Fiscal Policies in a Search-Theoretic Model of Money and Unemployment
Pere Gomis-Porqueras, Benoît Julien, and Chengsi Wang

Inflation and Quality Dispersion
Richard Dutu
MACROECONOMIC DYNAMICS

Editor: William A. Barnett, University of Kansas, Kansas City 66110, USA, and Department of Financial Economics, Washington, DC 20052, USA. Department of Economics, UCSD, 9500 Gilman Drive, La Jolla, CA 92037, USA.

Book Review Editors: Michele Boldrin, Department of Economics, University of California, Los Angeles, 405 Hilgard Avenue, Los Angeles, CA 90095-1556.

Editorial Information System Manager: Stephen E. Spear, Graduate School of Industrial Administration, University of Pittsburgh, 4200 Fifth Avenue, Pittsburgh, PA 15260.

Local Network Manager: Nathan Haley, Lawrence, Kansas.

Editorial Associate: Melinda Barnett, University of Kansas.

Advisory Editors:

Jean-Pascal Bénassy (CEPREMAP, Paris), Willem Buiter (London School of Economics and Political Science, London), Francisco X. Diebold (University of Pennsylvania), Steven Durlauf (University of Wisconsin), Douglas Gale (New York University), Giancarlo Gandolfo (University of Rome, Rome), Roger Guesnon (DELEA, Paris), Takatoshi Ito (University of Tokyo), Timothy Kehoe (University of Minnesota, Minneapolis), Michele Boldrin, Department of Economics, Washington University, 4th Floor, New York, NY 10036, USA.

Special Issues Editors: Catherine Doble, Department of Economics, Box 353330, University of Washington, Seattle, WA 98195; Lee Ohanian, Department of Economics, UCLA, 2261 Bunche Hall, 405 Hilgard Avenue, Los Angeles, CA 90095.

Notes for Contributors

Contributions. Contributions are welcome from all countries. They should be written in English. Approval of the Editor is required before any graphics are submitted. Authors are responsible for obtaining permission to reproduce any graphical material in the text. Artwork should be included in the final manuscript submission. It is the responsibility of each contributor to ensure that any material submitted conforms to copyright regulations regarding the use of materials from non-public domain sources.

Aims and Scope/Editorial Policy. The journal publishes research at the highest theoretical, empirical or quantitative sophistication. Papers of high quality presenting original, innovative and relevant advances in all aspects of macroeconomics and from all parts of the world, as long as the research is founded on a rigorous empirical or theoretical approach. Major advances in macroeconomics without immediate policy applications are also accepted, if they show potential for application in the future. Occasional book reviews, announcement of conferences, conference proceedings and interviews are also published. Special issues appear in the journal’s Supplement Series, having its own Special Issues Editor. An electronic version of the journal will be published simultaneously with the paper version enabling immediate access to the best current research in Macroeconomics.

Home Page. The journal has a home page on the web which is a source of further information about the journal. The location of the home page is http://econpapers.repec.org/n/j/MD as published by Cambridge University Press. Manuscript Submissions. The submission procedure for this journal has been converted to electronic uploading of papers to the Journal’s Editorial Manager. Follow the instructions provided at http://journals.cambridge.org/submission.html. Questions about the submission procedure can be directed to the Editorial Manager System Manager, Stephen Spear, at ulmd@journals.cambridge.org.

Originality and Copyright. Manuscripts and any source citation is called for, footnotes may be useful. These should be numbered consecutively. References should be given in the form preferred for publication, complete and the author to whom proofs should be sent. The corresponding author will receive page proofs for final proofreading. These should be returned to the editor at the end of the paper before the references. Some source citations within footnotes follow the same style as citations within the paper. Copyediting and Proofreading. The publisher reserves the right to charge authors for excessive correction or typesetting errors. Offprints. The corresponding author will receive 25 offprints of their article free of charge; additional numbers may be purchased if ordered at proof stage (an order form will be sent with proofs).
Introduction to the *Macroeconomic Dynamics* Special Issue on Inequality, Public Insurance, and Monetary Policy

**Pere Gomis-Porqueras and Benoît Julien**

**ARTICLES**

**Income Inequality, Mobility, and the Welfare State: A Political Economy Model**

Luca Bossi and Gulcin Gumus

**Poverty Traps and Inferior Goods in a Dynamic Heckscher–Ohlin Model**

Eric W. Bond, Kazumichi Iwasa, and Kazuo Nishimura


Minchung Hsu and Junsang Lee

**Means-Tested Age Pensions and Homeownership: Is There a Link?**

Sang-Wook (Stanley) Cho and Renuka Sane

**Monetary Policy, Inflation, and Unemployment: In Defense of the Federal Reserve**

Nicolas Groshenny

**Optimal Monetary and Fiscal Policies in a Search-Theoretic Model of Money and Unemployment**

Pere Gomis-Porqueras, Benoît Julien, and Chengsi Wang

**Inflation and Quality Dispersion**

Richard Dutu
SUBSCRIPTION INFORMATION: *Macroeconomic Dynamics* (ISSN 1365-1005) is published eight times a year in January, March, April, June, July, September, October, and December. Annual subscription rates for Volume 17, 2013: Institutional rate is (print and electronic) $894.00 in the USA, Canada, and Mexico, £539.00 + VAT elsewhere. Institutional rate (electronic only) $664.00 in the USA, Canada, and Mexico, £406.00 + VAT elsewhere. Institutional rate (print only) $821.00 in the USA, Canada, and Mexico, £487.00 + VAT elsewhere. Individual rate is (print and electronic) $225.00 in the USA, Canada, and Mexico, £128.00 + VAT elsewhere. Individual rate (print only) $219.00 in the USA, Canada, and Mexico, £126.00 + VAT elsewhere. Students (print only) $122.00 in the USA, Canada, and Mexico, £46.00 + VAT elsewhere. For members of the Econometric Society, the Society for the Advancement of Economic Theory, the Society for Nonlinear Dynamics and Econometrics, the Society for Computational Economics, and the Society for the Promotion of Economic Theory the rate is $100.00 in the USA, Canada, and Mexico, £62.00 + VAT elsewhere. Institutional access is via IP address range(s) or domain name(s); individual subscriber access is via a username and password. Prices include postage; airmail is extra. Write to Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013-2473, or outside the USA, Canada, and Mexico to Cambridge University Press, The Edinburgh Building, Shaftesbury Road, Cambridge CB2 8RU, England. Claims for missing issues should be made immediately after receipt of the next issue.

Periodicals postage pending at New York, NY and additional mailing offices. Postmaster: send address changes in the USA, Canada, and Mexico to: *Macroeconomic Dynamics*, Cambridge University Press, 100 Brook Hill Drive, West Nyack, NY 10994-2133. Send address changes elsewhere to: *Macroeconomic Dynamics*, Journals Dept., Cambridge University Press, The Edinburgh Building, Shaftesbury Road, Cambridge, CB2 8RU, U.K.

© 2013 Cambridge University Press. Photocopying information for users in the USA: The Item-Fee Code for this publication indicates that copying for internal or personal use beyond that permitted by Section 107 or 108 of the US Copyright Law is authorized for users duly registered with the Copyright Clearance Center (CCC) Transactional Reporting Service, provided that the appropriate remittance of $18.00 per article is paid directly to: CCC, 222 Rosewood Drive, Danvers, MA 01923. Specific written permission must be obtained from the publisher for all other copying. The Item-Fee Code for this journal is 1365-1005/13 $18.00.

ISI Tearsheet Service, 3501 Market Street, Philadelphia, PA 19104, USA is authorized to supply single copies of separate article for private use only. Article reprints are available from the authors. For orders of 50 or more reprints, contact Cambridge University Press.

*Macroeconomic Dynamics* is indexed in EconLit; The Journal of Economic Literature (e-JEL and JEL on CD); ISI: Current Contents/Social & Behavioral Sciences; Social Sciences Citation Index; Research Alert; Mathematical Reviews; MathSciNet; Zentralblatt fur Mathematik.

**EDITORIAL POLICY**

*Macroeconomic Dynamics* publishes research of the highest theoretical, empirical or quantitative sophistication. Papers of high quality are welcomed from all areas of advanced macroeconomics and allied fields, so long as the research is founded in a rigorous scientific approach. Major advances in macroeconomics without immediate policy applications also are accepted, if they show potential for application in the future. Occasional book reviews, software reviews, announcements, conference proceedings and interviews are published.

An electronic version of the journal is published just prior to the paper version at journals.cambridge.org/mdy. Access to the full-text articles of the electronic version will be limited to institutional subscribers of the hard copy version of the journal, with access available to all online users at that institution’s registered domain. Tables of Contents, abstracts, searching and alerting services will remain free of charge. To view the full text of *Macroeconomic Dynamics*, you will need to use the Adobe Acrobat Reader software. If you do not have a copy already, you can get it free of charge. Just follow the link from our Cambridge Journals Online home page, download it, and install it as a plug-in helper application for your browser.