Monetary Equilibria and Knightian Uncertainty

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Abstract

We consider a stochastic overlapping generations model in which each generation is endowed with a maximin preference. We achieve two objectives. First, we show that multiple monetary equilibria exist and hence real indeterminacy arises when an aggregate shock of endowment is present. Second, we show that each of these monetary equilibria is conditionally Pareto optimal, that is, no other stationary allocations strictly Pareto dominate the equilibrium allocations.