

Money, Nominal Bonds and Taxation*

Alessandro Marchesiani[†] Pietro Senesi[‡]

February 28, 2006

Abstract

This paper studies the coexistence of money and risk-free assets in an economy with trading frictions and preference shocks. It is shown that nominal bonds help to reduce the inefficiency generated from the fact that some agents are cash constrained while others hold idle money. This reduction does not prevent trade efficiency in the good market and its magnitude crucially depends on the distribution of buyers and sellers.

Keywords: Money, search, bonds and taxation

JEL: E40, H20, H63

*We would like to thank the Italian Ministry of Education for financial support. All remaining errors are only ours.

[†]Department of Economics, University of Tor Vergata, Via Columbia, 2 - 00133 Rome, Italy; email: alessandro.marchesiani@uniroma2.it, Phone: +39 06 72595742, Fax: +39 06 2020500.

[‡]Department of Social Science, University of Naples "L'Orientale", Largo S. Giovanni Maggiore, 30 - 80134 Naples, Italy; email: psenesi@unior.it, Phone: +39 081 6909482, Fax: +39 081 6909442.