

Optimal Inflation Rates for Young and Old*

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Abstract

How does the grayer society affect the political decision making regarding inflation rate? Is deflation preferred as the society gets older? In order to answer to these questions, we compute the optimal inflation rates in the stationary population for young and old respectively, by using a New Keynesian model with the overlapping generations. Contrary to the standard New Keynesian models, the optimal inflation rates are non-zero for young, old and even the representative population. Old prefers lower inflation rates as aging deepens. In particular, heterogeneous impacts from surprise inflation via nominal asset holdings can be very large. As a result, the optimal inflation rates for old given the positive nominal asset position can be largely negative.

Keywords: Optimal inflation rates; Societal aging;

JEL codes: E52; J11

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