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Igor Fedotenkov¹

Abstract

This paper models a mechanism through which population ageing may induce a deflationary process. We propose an overlapping-generations model (OLG) with money created by credits (inside money) and intergenerational trade. The model links demographic factors, such as fertility rates and longevity, to prices. We show that lower fertility rates lead to smaller demand for credit and lower money creation, which in turn cause a decline in prices. Changes in longevity affect prices through real savings and the capital market. Furthermore, a few links between interest rates and inflation are addressed; they arise in the general equilibrium and are not thoroughly discussed in literature. Long-run results are derived analytically; short-run dynamics are simulated numerically.

JEL Classification: E12, E21, E31, E41, J10

Keywords: Population ageing; inflation; OLG model; inside money; credits.

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