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Partial Inflation Indexation and Long-run Inflation Targeting in a Growing Economy: A Comparison of Calvo and Rotemberg Pricing Models

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Highlights

- A New-Keynesian endogenous growth model with partial inflation indexation is used to reproduce a two percent trend inflation target.
- Two popular price setting scenarios, Calvo (1983) and Rotemberg (1982) are embedded in the growth model.
- Growth and distortionary effects of positive trend inflation are taken into account.
- Two percent optimal trend inflation is obtained in both models for reasonable parameter values.

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