

# **" Inflationary Redistribution vs. Trading Opportunities: A Liquidity Channel for Monetary Policy"**

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## **Abstract**

We show that competitive search in some goods markets matters, theoretically and quantitatively, for understanding the distributional and welfare consequences of inflation policy. Our quantitative-theoretic framework combines tractable competitive search frictions and endogenous market participation in Walrasian markets for liquidity management. With competitive search, we explain and show that endogenous probabilities on trading events give rise to important quantitative and policy trade-offs. Quantitatively, welfare falls, but liquid-wealth inequality falls and then rises, with inflation. The latter is because the extensive margin of trade, driven by endogenous downside risks to matching, dominate redistributive effects for sufficiently high inflation. The welfare cost of inflation in the model is also non-trivial.