Reply to comments on “International transmission of shocks, money illusion and the velocity of money”

1. Abstract is very sparse, since the sentences don’t seem connected. The abstract should be more self-contained and transmit the general idea.

I will revise it.

2. The use of the term “learn” it is not very adequate in this paper, since the reader could think that this is paper inserted in the learning literature, and in fact it is not.

A possibility would be to change to “acknowledge”. The sentence would become “This paper rationalizes money illusion in an stylized open economy model considering that private agents acknowledge nominal aggregate demand at a level different from the one imposed by rationality”.

3. In the Introduction at the very beginning of this section, you should give emphasis to what you do, which is different from others, and only after that talk about previous literature. You only introduce what you do in the 7th paragraph of the Introduction.

I will revise it.

4. In the Introduction also, you should give the reader the information of why is it important to study money illusion and the velocity of money in the context of NOEM.

Introducing money illusion and different velocities of money alters the results of the benchmark model, allowing for new considerations on open economies.

5. When you refer to the appendix, you should indicate which section, so the reader is not lost.

Usually I do not insert the appendix inside a section, so it was a mistake to do it. I will take the appendix out of section 6 and insert it in the end of the paper, just before references.

6. Concerning section 3 – money illusion – instead of considering that agents always set their nominal wages(demand) lower than the optimal nominal wage, you could consider an adaptive rule, where agents always set their nominal wages equal to the previous period nominal wage, so you don’t have to define, if it lower or higher.

I will consider this possibility.

7. Also in Section 3, why don’t you calculate welfare in the foreign country, like you do in section 4?

I calculated welfare for the velocity of money section because, there, an incomplete information game between Home and Foreign policymakers with monetary policy rules was developed. As far as I remember there was no change to the foreign economy in the case of money illusion at Home, but I will check.

8. The reference to Irving Fisher should be in the References.

9. At the end of section 4, you should give the reader an institution why is it that the productivity shock generates a gain and the velocity shock generates a loss (in terms of foreign welfare).

Yes, I may attempt to do so.