

The Concept of Ideal Money and How to Achieve it by Estimating the Optimal and Threshold Level of Inflation: A Case Study of Iran's Economy

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Abstract

Inflation is a fundamental challenge for less developed countries, posing significant economic, social, cultural, and political hurdles for policymakers. This research employs John Nash's concept of ideal money and acknowledges the difficulties faced by developing economies like Iran in achieving a zero inflation rate. By estimating the threshold and optimal levels of inflation, this study aims to approximate the ideal level of inflation and analyze its economic implications. Using a threshold and non-linear time series regression model over the period 1959-2020 for Iran's economy, our findings reveal that the threshold and optimal inflation levels lie between 10 and 12 percent. The study suggests that the government and central bank should implement appropriate monetary and fiscal policies to align the real inflation rate with its optimal level, thereby fostering economic growth and maximizing societal welfare.

Keywords: Ideal money; Inflation Rate; Inflation Threshold Rate; Optimal Inflation Rate; Economic Growth of Iran.

JEL Classification: C13, E13, O53, E31.

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