Comments and Discussions

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This paper is utilizing an overlapping generation model a la Stiglitz (1989) to explore one of the most interesting topics in price theory, namely countercyclical price movement to business cycles.

Stiglitz paid attention to search cost. This paper instead utilizes two types of consumers who differ in income to produce countercyclical price movement.

More specifically, they assume two types of consumers, high income ones and low income ones and assert that retirement of low income consumers from the market due to the recession results in countercyclical price movement.

If I dearly raise the point for discussion on this model, it is related to a nature of partial equilibrium supposing pure exchange. All prices are relative price measured in terms of numeraire in an economy without money. If this is the case, they proved only a case for countercyclical price movement. Relative price in terms of "other" commodity can be procyclical on the other side of story. Their analysis has also proved the existence of procyclical price movement along the business cycle at the same time.

Regardless of this subtle point, this paper is successful to show a mechanism which can lay countercyclical price movement along the business cycles.

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