

# Habit Persistence and Beliefs:

Lessons for the Effects of Monetary Policy

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## Abstract

The paper introduces habit persistence in consumption decisions in an infinitely-lived agents monetary model with a cash-in-advance constraint. We first show that strong enough habit persistence yields indeterminate equilibria. We then check the robustness of this result against alternative specifications, among which the introduction of other assets to escape the inflation tax. We however show that real indeterminacy is not *per se* sufficient to obtain an empirically relevant representation of the effects of monetary policy. The form of the beliefs matters. Money may be neutral when agents do not trust in money, whereas the monetary transmission mechanism is retrieved when beliefs are positively correlated with money supply shock. In the latter case, the model is also capable of generating a liquidity effect.

Keywords: Habit persistence, cash-in-advance, monetary transmission mechanism, beliefs, real indeterminacy, price stickiness, liquidity effect.

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