The Review of Economic Studies Ltd.

Money in a Sequence Economy: A Correction

ROSS M. STARR

University of California, Davis

In Starrett's [1] elegant and important study, there is an oversight in the statement of Lemma 1 (p. 446). The sense of the inequality in equation (23) and the definition of the interest factor S_w^n are incorrect as printed. An alternative correct formulation of the Lemma is:

    Lemma 1 (*corrected*). *The problem* (19) *is equivalent to*

$$(x_h^w, y_h^w) \text{ maximizes } U^h \qquad\qquad ...(22)$$

subject to non-negativity of c_h, x_h^w, y_h^w, *and subject to*

$$\sum_w S_w^n(q^w y_h^w - p^w x_h^w) \leq 0, \qquad\qquad ...(23) \ (corrected)$$

where

$$S_w^n \equiv \prod_{t=n}^{w-1} 1/S^t, \quad \text{for } n \text{ an arbitrary base date } (n \leq b(h)-1).$$

    The original statement in Starrett [1] differs in the sense of the inequality and by defining S_w^n as $\prod_{t=n}^{w} S^t$. The proof follows as outlined in Starrett [1] with a change in multiplicative constant: "(23) is obtained from (17), (18) by substituting recursively for the d_h^w in (17) using (18) and multiplying by a constant:" $\prod_{t=n}^{n(h)-1} 1/S^t$. The rest of the proof is identical.

    The new definition of S_w^n is formally very similar to Starrett's and represents what the term was intended to convey. S_w^n (corrected) $= S^w/S_w^n$ (original). Theorems 2 and 3 follow as before.

REFERENCE

[1] Starrett, D, "Inefficiency and the Demand for 'Money' in a Sequence Economy", *Review of Economic Studies*, **40** (1973), 437-448.