Figure 1 displays impulse responses of inflation, output, nominal and real interest rate to a one standard deviation shock to the rate of growth of money. For each of the panels, we report the impulses for six different levels of trend inflation: $\gamma = 1.0, \gamma = 1.005, \gamma = 1.01, \gamma = 1.015, \gamma = 1.02$ and $\gamma = 1.025$, corresponding respectively to 0%, 2%, 4%, 6%, 8% and 10% trend inflation rates. To begin with, consider the case of zero inflation steady state, i.e $\gamma = 1$. As standard in these models, in response to an

As in Galí (2003), for simplicity, we set the variance of the shock equal to one, so that the units of all variables should be interpreted as percentage deviations (as in all the graphs in the paper). Moreover, again as in Galí (2003), we calibrate to 0.5 the persistence parameter of the AR(1) process governing the money supply growth rate.