Abstract
Why do some sellers set nominal prices that apparently do not respond to changes in the aggregate price level? In many models, prices are sticky by assumption; here it is a result. We use search theory, with two consequences: prices are set in dollars, since money is the medium of exchange; and equilibrium implies a nondegenerate price distribution. When the money supply increases, some sellers may keep prices constant, earning less per unit but making it up on volume so profit stays constant. The calibrated model matches price-change data well. But, in contrast to typical sticky-price models, money is neutral. (JEL: E52, E31, E42)