Discussion

“Monetary Policy with Heterogeneous Agents”
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Monetary Policy with Heterogeneous Agents

- Distributional effects of monetary policy

- Motivation
  - Help policy makers communicate their decisions
  - Aggregate effects MP may be affected

- Model as laboratory
  - NKM + heterogeneity in wealth, earnings/prod and empl. status
  - Krusell-Smith + price stickiness

- The good and the bad
  - :-) Important question, well written paper
  - :-( Not sure model captures the most important channels
Figure 7: TFP Shock: Individual Labor Income, Income, Consumption

Labor Income

All Income

Consumption

Figure 13: Monetary Policy Shock: Individual Labor Income, Income, Consumption

Labor Income

All Income

Consumption
Minor quibbles

- Normalize size and sign of shocks for comparability
  - Why compare *contractionary* MP shocks to *expansionary* TFP shocks?
- How different are MP shocks and TFP shocks?
  - “An important result for our exercise is that monetary policy shocks have strikingly different implications for the welfare of different segments of the population.”
  - “This heterogeneity in sign and size of welfare losses from monetary policy shocks stands *in stark contrast to TFP shocks*, which affect the populations more uniformly.”
  - “with a TFP shock, a rising tide lifts all boats ... monetary policy, instead, lifts the boats of the wealthiest only.”
- What about heterogeneity in earnings and empl. status?
Figure 7: TFP Shock: Individual Labor Income, Income, Consumption

Figure 13: Monetary Policy Shock: Individual Labor Income, Income, Consumption
Distributional effects of monetary policy

- My intuition ($R^{\text{nom}} \uparrow \Rightarrow R^{\text{real}} \uparrow \Rightarrow \pi \downarrow, y \downarrow$)
  
  - $R \uparrow$ hurts borrowers, helps savers
    Type of asset should matter (nominal assets more affected)
  
  - $\pi \downarrow$ hurts borrowers, helps savers (lower inflation tax)
  
  - $y \downarrow$ may have distributional effects
    Some industries rely more on external finance than others

- Gornemann, Kuester and Nakajima’s model
  
  - Different sources of income are affected differently by MP
    Wealthier HHs receive financial income, others only labor income or transfers
  
  - Labor earnings may be affected by MP differently
    Unemployment risk in recessions rises disproportionately for lower skill groups
  
  - MP affects value of different assets and liabilities differently
MP affects value of different assets and liabilities differently

“As a result, to the extent that financial positions differ across households, MP measures will redistribute wealth …”

“There exist a variety of real assets, the return of which is affected by MP: physical capital, shares in intermediate goods firms and shares in labor firms.”

Household budget constraint

\[ c + p_a (X) a' = (p_a (X) + d_a (X)) a + \begin{cases} w (X) s (1 - \tau (X)) \text{ if empl} \\ bs \text{ if unempl} \end{cases} \]

financial and business income

labor income or transfers

Problems

Abstract from portfolio choice (representative mutual fund)

Abstract from liabilities (zero borrowing limit)
Suggestions

- Open up the black box
  - Start simple, build up the complexity gradually
  - Compare to model without heterogeneity rather than without nominal rigidities
- Focus the modelling effort where the return is highest
  - Portfolio choice
  - Do we need employment status?
- Discuss the results
  - There may be other effects in the model that are more subtle/interesting
  - How are the aggregate effects of MP affected by heterogeneity?