On the Dynamic Effects of Monetary Policy with Heterogeneous Agents: HAVARs for HANK

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Standard Fed Disclaimers apply

The Question

- Do monetary shocks (more in general monetary policy) impact different groups of households differently?
- Important for two reasons:
  - Assess distributional consequences of monetary policy actions (see Gorneman et al. 2016, and the current debate on Fed new framework)
  - Understand better the transmission mechanism of monetary policy

Findings

- Standard VAR analysis to measure responses to mon. shocks of group specific variable (i.e. HtM/NHtM, college/ no college), constructed using micro-data
- Earnings and consumption of HtM respond more than NHtM
- Earnings of HtM responds more to shocks, also because being HtM is positively correlated with other characteristics (i.e. being young and non college) that also display larger response to monetary policy shocks
- Conclusion: ex-ante heterogeneity (college/no college) matters for responses to monetary policy

My discussion

- Putting the findings in context
- What drives these findings?
- How are they changing the way we conduct monetary policy
- Does wealth heterogeneity matter for the impact of monetary policy?

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  - Other effects (non labor income), not discussed here (see previous paper)

Monetary policy, intertemporal substitution and HtM

- The effect of lower interest rate on spending rate should be *smaller* for HtM v/s NHtM
- Growing consensus that IS small: unlikely source of significant difference in responses for HtM v/s NHtM

Monetary Policy and Labor Income

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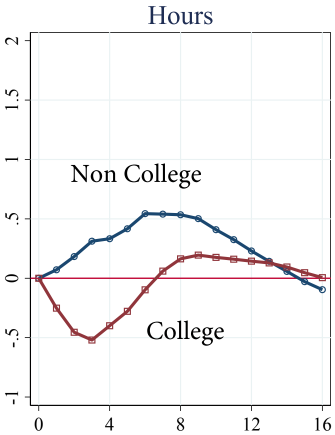
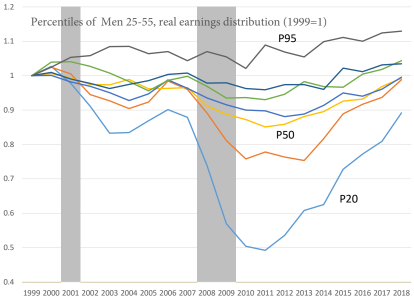


Why would lower rate increase more labor income of more vulnerable groups?

- A simple view: during recessions labor income of more vulnerable groups (non college, non white) takes a bigger and fast hit, during expansions these groups slowly recover
- If lower rates reduce prob. of entering a recession (increase prob of remaining in expansion), lower rate benefits more the more vulnerable groups
- Empirically true, theoretically more complex (see Kaplan and Zoch 2020, Heathcote, Perri and Violante 2020)

Changing monetary policy: the value of continuing expansions



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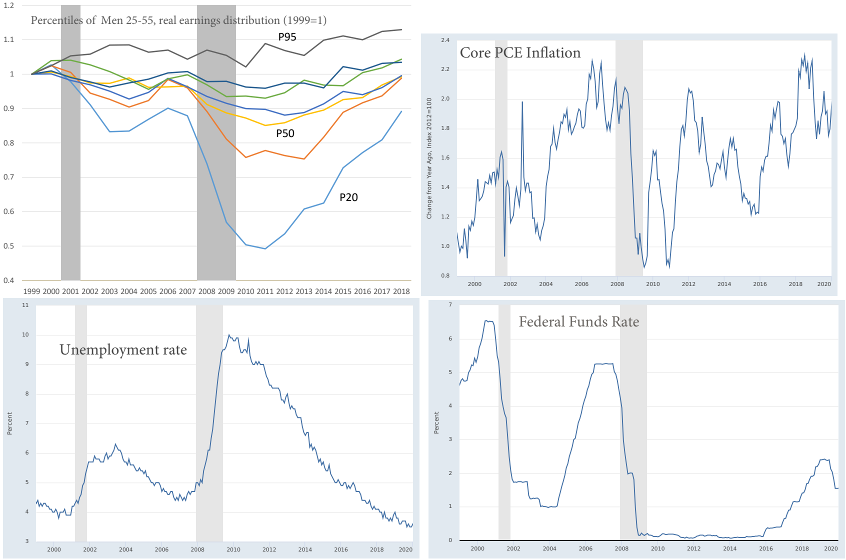
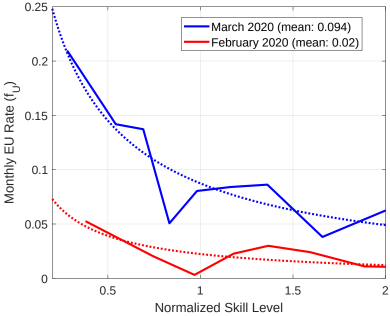


Looking forward

The COVID Recession has been particularly harsh with low skill groups



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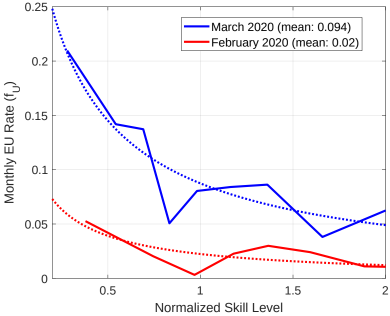

and that suggests that during the next cycle the Fed will be even more cautious in rasing rates.

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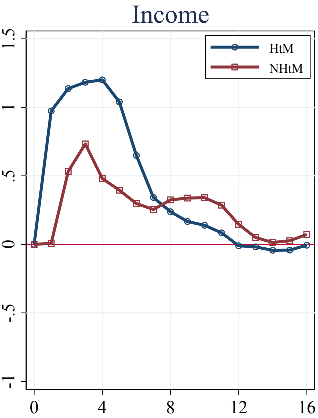
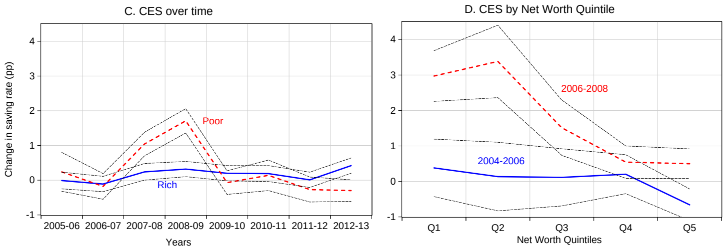


Does ex-post(wealth) heterogeneity matter? 2

- During recessions unemployment risk increase
- Lower wealth households more vulnerable to this risk (lower buffer)
- Increase precautionary saving more (Krueger, Mittman and Perri, 2016, Heathcote and Perri, 2017)



Note: the thin dashed lines delimit bootstrapped 2 standard error bands.

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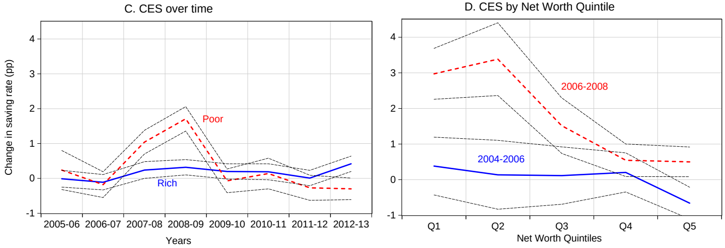

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- Expansionary monetary policy, reducing risk of recessions, helps more low wealth households (consumption/saving channel)

Conclusion

- Paper makes important empirical advances in characterizing how monetary policy affects different households groups
- Great paper, fitting conclusion of a great and super topical conference!