

DISCUSSION OF
DOVES FOR THE RICH, HAWKS FOR THE POOR?
DISTRIBUTIONAL CONSEQUENCES OF MONETARY
POLICY
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We care on Inflation ... [because] ... during periods of inflation, not all prices and wages rise proportionately, inflation affects income distribution.

Blanchard, Amighini and Giavazzi,

- Distributional Consequences of Monetary Policy of Monetary Policy (Taylor Rules) on the
 - ① Endogenous distribution of agents
 - ② and Aggregates of the economy

WHAT THEY DO

- Compute Transitional Dynamics in the Krussel-Smith Economy where
- Monetary Shocks affects
 - ① Intermediate Good Producers (NP) Value
 - ② Vacancies posted by labor agencies
 - ③ Finding Rates
 - ④ Unemployment
 - ⑤ Output
 - ⑥ Wages

WHAT THEY DO

- Monetary Policy Shock ($\Delta R = 1\%$)
 - 1 $\Delta r > 0$
 - 2 $\Delta f < 0$
 - 3 $\Delta u > 0$ and $\Delta w < 0$
 - 4 $\Delta w(1 - u) < 0$

WHAT THEY DO

- Distributional impact depends on the income composition

$$\underbrace{w(1-u)l}_{\text{earnings}} + \underbrace{ra}_{\text{capital income}} + \underbrace{\bar{\pi}}_{\text{residual}}$$

- ① Main Street: Income $\propto w(1-u)l$
- ② Wall Street: Income $\propto ra$

- The distributional implications of the model are in line with evidence
- Monetary Shocks has bigger distributional impacts than TFP Shocks

SUMMARISING: THIS IS A NICE MODEL ! ... but

- 1 In order to reduce the number of state variables
 - We abstract from other potential sources of distributional impacts (i.e. Erosa and Ventura, 2002)
 - Monetary Policy Inertia
 - Seigniorage (Government balances its budget period by period)
- 2 Big Models use large number of parameters (32 !)
- 3 Large number of parameters (may be) reduces Robutness

THE NATURAL EXPERIMENT

- 1 Compute Finding rates and prices in a model without heterogeneity
- 2 Compute the “Exogenous Distribution”

IN COUNTRIES WITH LOW (λ) UNEMPLOYMENT RATES

Maybe the sum of all consumers behaves close as if the economy contained a single (Hansen-Rogerson) consumer ..

- Finding rates are equal across agents
- Krussel-Smith with only first moments \Rightarrow policy functions (must be) linear !
- Preferences are homothetic ...
- You find an (usefull) separation result close to Caselli and Ventura (2000)
- You measure the cost of using representative agent models in the design of monetary policy !

OTHER COMMENTS

Welfare effects: shift from No to Aggressive response

Variable	Short Run	Large Run
Representative Agent (RA)	0.046	-0.024
Average of all Households (HA)	0.019	-0.062

... This is because of the effect on precautionary savings in an environment with market incompleteness. When the monetary authority reacts more aggressively to economic fluctuations, there is less need for precautionary savings for individual households, and the aggregate savings decline

Thank you for your attention