

Discussion of “Monetary Policy and the Redistribution Channel”

Christian A. Stoltenberg

University of Amsterdam (UvA) and Tinbergen Institute (TI)

18th Annual DNB Research Conference

Adrien's paper

- ▶ Adrien analyzes the impact of transitory changes in the real interest rate r (monetary policy) on aggregate demand C
- ▶ His main contribution is to derive a “sufficient statistic” to capture the impact effect in Theorem 3:

$$dC \simeq \dots \left[\underbrace{\text{Cov}_I(MPC_i, URE_i)}_{\text{Interest-rate exposure channel}} - \underbrace{\sum_i \sigma_i(1 - MPC_i)c_i}_{\text{Substitution channel}} \right] dr$$

- ▶ New: *Interest-rate exposure channel* that depends on the population covariance of individual marginal propensities to consume (MPC) with Unhedged interest Rate Exposures (URE).

Adrien's paper...

- ▶ Maturity structure matters: the *URE* captures the difference between maturing asset and liabilities.
- ▶ Heterogeneity matters: If households with negative *UREs* (unhedged borrowing) have higher propensities to spend, then interest rate changes are amplified.
- ▶ Adrien provides evidence for this case in the U.S. and Italy.
- ▶ What's news about this approach? No need to build a quantitative model with imperfect insurance of idiosyncratic risk and aggregate risk (see e.g., Gornemann et al. or Challe et al.)
- ▶ Sufficient: assessing the two channels in the data.

Sufficient statistic approach

- ▶ Approach depends on measuring $MPCs$, $UREs$ and the intertemporal elasticity of substitution σ
- ▶ For the U.S., Adrien uses the information the Consumer Expenditure Survey (CEX) on $MPCs$, $UREs$
- ▶ Issue 1: CEX is not very detailed when it comes to assets and liabilities and their maturities.
- ▶ Issue 2: recent papers (Aguiar and Bils, 2015, AER; Attanasio et al., 2012) argue that there are systematic biases in reported consumption expenditures.

Monetary policy or rather just monetary policy shocks?

- ▶ Sufficient statistics approach only valid for transitory changes in r : Adrien employs a Huggett model without aggregate uncertainty to analyze persistent changes.
- ▶ Monetary policy is modeled as an exogenous change of the real interest rate. With fully sticky prices, this is equivalent to a shock to the nominal interest rate.
- ▶ Typically, the nominal interest rate is the instrument of the central bank. What about a systematic response of monetary policy to output (and inflation)?
- ▶ The paper reduces monetary policy to monetary policy shocks which is a bit unfortunate because these shocks are not under control of a central bank.

Monetary policy or rather just monetary policy shocks?

- ▶ There is no aggregate uncertainty in Adrian's model while the NK workhorse models typically have only aggregate uncertainty.
- ▶ Neither output nor inflation are mainly driven by monetary policy shocks but by other shocks.
- ▶ That makes a systematic response of monetary policy using endogenous feedback rules a key ingredient to any monetary model.
- ▶ Further: announcements of central banks matter often more than the actual policy because announcements can affect inflation expectations and over this channel the real interest rate. Without aggregate uncertainty, there is no such channel.
- ▶ Announcement effects of monetary policy with aggregate and idiosyncratic risk: Lepetyuk and Stoltenberg (EJ, 2013).

A few other comments and questions

- ▶ Fully sticky prices quite extreme. Why not do staggered price setting and augment the model with a partial adjustment equation for the price level?
- ▶ The maturity structure of assets and liabilities plays an important role: What happens when you allow for a richer maturity structure?
- ▶ Further: in the standard workhorse NK model, there is full insurance. In your model, there is just one non-state contingent asset.
- ▶ Suppose your model featured a full set of securities with endogenous borrowing constraints (limited commitment). Do you expect stronger or weaker effects of real interest rate changes?