



CPB Netherlands Bureau for Economic
Policy Analysis

The New Keynesian Cross

Discussion by Adam Elbourne



Summary

- Representative Agent New Keynesian model has a flat planned expenditure curve
 - Not very Keynesian
- Heterogenous Agent models can change this
- This paper uses models with two agents to illustrate this
 - TANK-E
 - › Hand-to-mouth agents are employed
 - TANK-U
 - › Hand-to-mouth agents are unemployed
- Key mechanism: does hand-to-mouth income vary more or less than one-for-one with GDP?
 - If more, increasing the share makes models more Keynesian
 - Forward guidance is more powerful
 - But the economy is more volatile



What I like

- Useful topic for fiscal policy too
- Very nice to resurrect the Keynesian cross
- Makes the mechanisms easy to understand
- The discussion of forward guidance makes clear that the effectiveness of FG depends on how Keynesian the economy is, which also makes the economy sensitive to shocks of all kinds

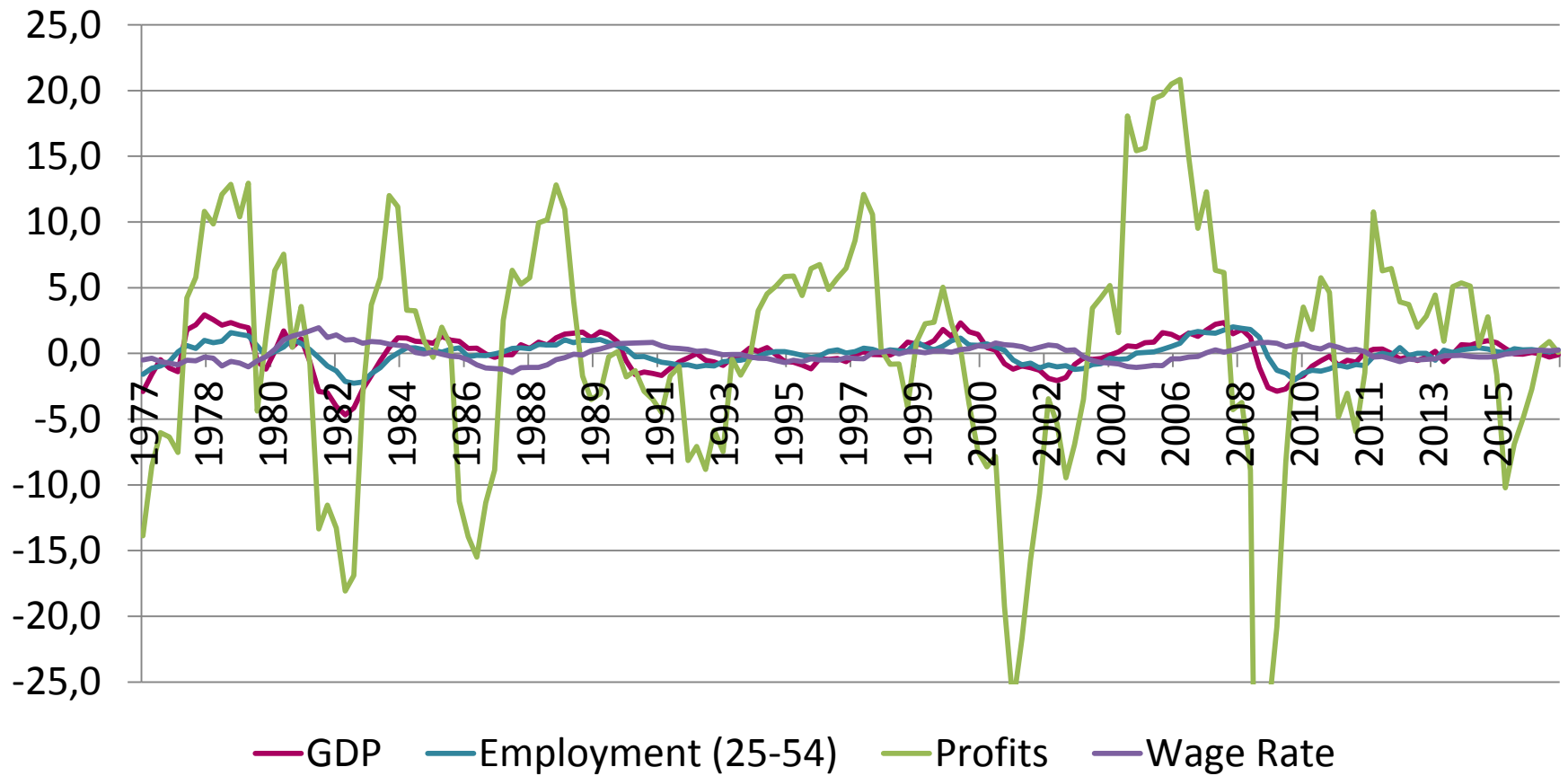


Comments

- In the TANK-E model, hand-to-mouth income is more pro-cyclical than GDP:
 - Wages rise to attract more labour supply
 - Profits share of GDP falls

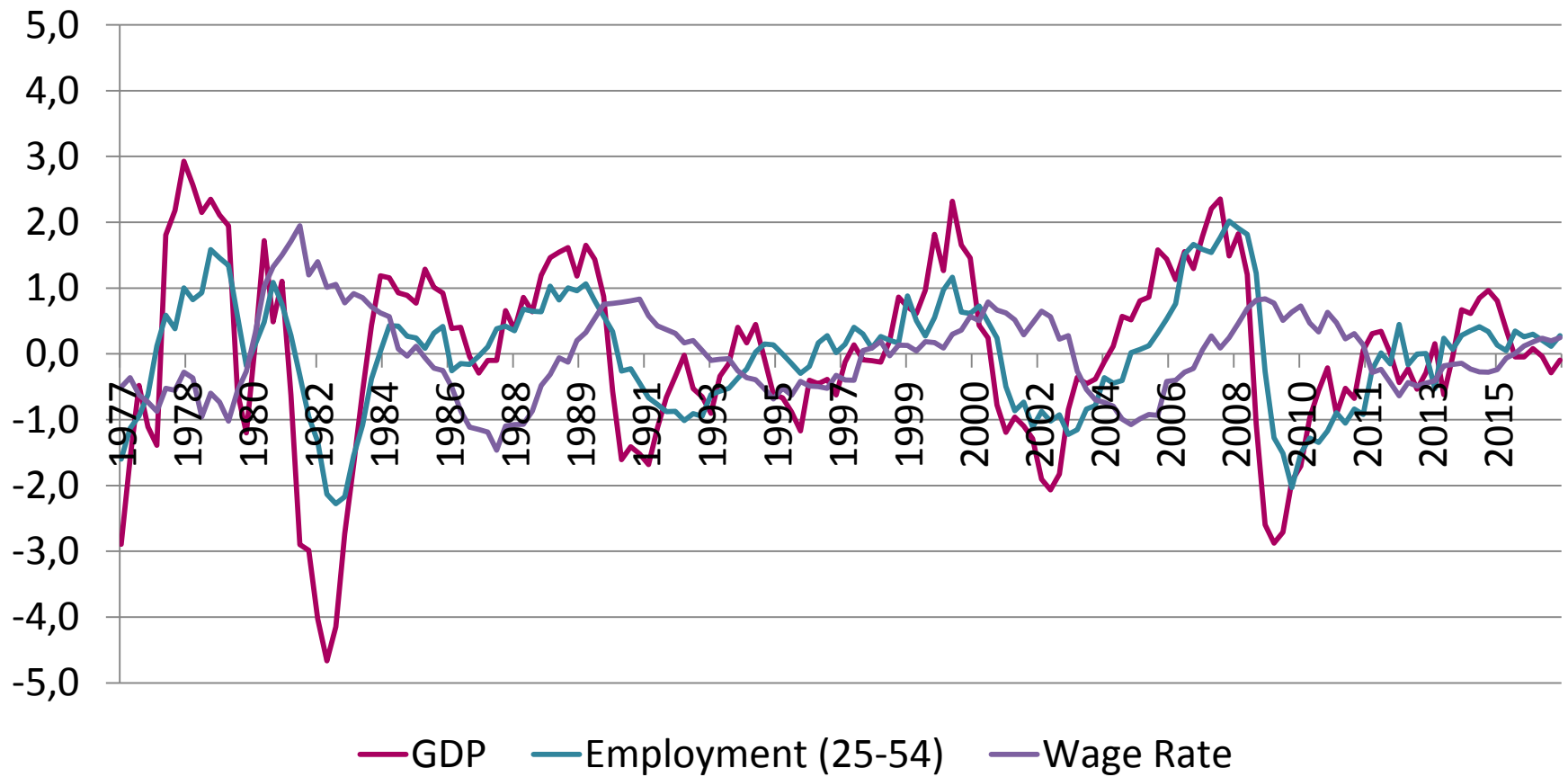


US data





US data





Comments

- In the TANK-E model, hand-to-mouth income is more pro-cyclical than GDP:
 - Wages rise to attract more labour supply
 - Profits share of GDP falls
 - In the data, profits are the most pro-cyclical component of GDP
 - Wages aren't so pro-cyclical
- In the TANK-U model, hand-to-mouth income is not pro-cyclical
 - In reality, the proportion of unemployed/hand-to-mouth varies with the cycle
 - A monetary expansion turns some unemployed/hand-to-mouth into employed/Ricardian
 - Their income increases much more than GDP