

DISCUSSION OF “THE SHORT LAGS OF MONETARY POLICY”

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SHORT LAGS OF MONETARY POLICY

Design:

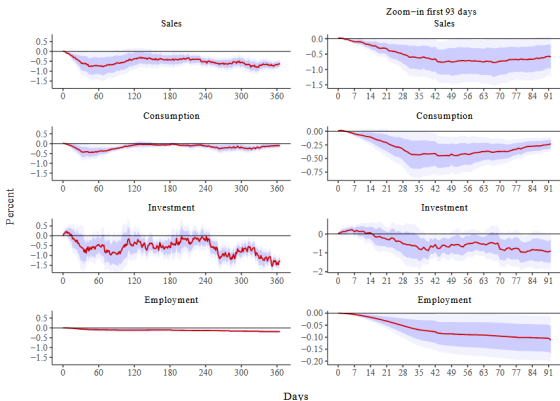
- Daily consumption and investment from bank transaction data
- Administrative data on gross output (sales) and employment (Spain)
- Sectoral detail across consumption, production, and employment
- High-frequency identification of monetary policy shocks

Results:

- **Fast response:** Output and consumption react within days/weeks
- **Heterogeneity:** Downstream sectors (durables/luxury) adjust first; upstream sectors and employment lag
- **Measurement:** Effects visible at daily/weekly/monthly frequency, but **obscured in quarterly data because of time aggregation**

PROPAGATION OF MONETARY SHOCKS

Figure 2: Daily response of real activity to monetary policy shock



Notes: LP impulse response functions to a one standard deviation monetary policy shock. The responses are reported in levels. The confidence intervals are computed from heteroskedasticity-robust standard errors. Darker-shaded areas are the 68% confidence intervals, and lighter-shaded areas are the 90% confidence intervals. The sample ends in October 30th, 2023. The sample starts one year after the sample start of each series reported in Table A1. For sales and investment—the shorter series—the monetary policy shock standard deviation is 4.1bp, while for consumption and employment it is 3.7bp.

IMPLICATIONS FOR DSGE MODELING

Key Message:

- Monetary transmission may be much faster than previously thought
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- Successfully matched *slow* VAR-based impulse responses
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Interesting parallel:

- Literature on microevidence of price changes → lower nominal rigidities than assumed

INTERPRETING THE DYNAMICS

Empirical Pattern:

- IRFs: sharp initial response → partial reversal → re-emergence
- Aggregation over time generates apparent *lags*

“Lags” may reflect **non-monotonic adjustment**, not slow transmission

- **Overreaction to monetary shocks** (sentiment-driven?)
- Subsequent belief correction dampens effects, leading to the aggregation bias

Interpretation:

- Do people initially exaggerate the effects of monetary policy?
- Conflicts with survey evidence – Coibion and Gorodnichenko

NORMATIVE PERSPECTIVE

Differential Adjustment Speeds:

- **Fast:** Output, consumption, and investment
- **Slow:** Employment

Key policy questions?

- Should monetary policy look through short-lived dynamics?
- Can transitory effects have persistent welfare implications?
- How should policymakers deal with differential speed of adjustment?