Discussion of

Kaplan, Moll and Violante:

Unconventional Monetary Policy in HANK

Workshop on Current Monetary Policy Challenges

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The views expressed are mine and do not necessarily reflect those of the ECB.
Key Contribution

- Analyze effects of **forward guidance** in Het Agent New Keynesian framework
- Announcement of future IR cut has smaller effect on current C than contemporaneous cut
- Similar to McKay, Nakamura & Steinsson, BUT very different from Rep Agent NK and DSGE
- In HANK, indirect effects of FG dominate direct effects, like for standard MP
Heterogeneous Agent New Keynesian Framework

- Realistic household heterogeneity in income and liquid + illiquid assets
  ⇒ Precautionary saving, realistic MPC
- Combined with sticky prices (due to nominal rigidities & adjustment costs)
Monetary Policy in HANK

- Direct response to $r$ (intertemp substitution) makes up roughly 1/3, while indirect GE effects through $Y$, $W$ roughly 2/3 of total response
  - ie Direct: 30%, indirect: 70%
- MP in HANK less powerful, has to rely on indirect channels (eg through fiscal pol)

RANK/DSGE

- In contrast, in RANK/DSGE:
  - Direct: 95%, indirect: 5%
- RANK/DSGE at odds with large micro evidence on C behavior
  - (small response of $C$ to $r$, large MPC of trans shocks, MPC heterogeneity, . . .)
Forward Guidance (FG) in HANK

Results
▶ Current impact of FG lower than in RANK/DSGE
▶ Indirect channel only works when $r$ actually lower, not at announcement, because fiscal stimulus only happens in future

Comments
▶ What if fiscal stimulus at announcement?
▶ Fiscal policy can be targeted to high-MPC households
Comments on HANK—Convex Adjustment Costs

- Elegant continuous time setup
- Convex, quite large adjustment costs on illiquid assets prevent jumps in assets
- Allowing for jumps eg in cars, housing could matter for MPC (indirect effect)
- Eg large response of car sales to tax rebates (Parker et al., AER2013)

Figure D.4: Calibrated Adjustment Cost Function
Comments on HANK—Earnings Process

- Income data available annually
- Paper targets moments in SSA data (Guvenen et al.):
  Variance and kurtosis of 1yr and 5yr changes
- Does HANK income resemble persistence and other moments of actual data?
- Persistent component arrives every 38 years, half-life 18 years;
  transitory arrives every 3 years, half-life 1 quarter
Comparison with Effects of FG in McKay et al.

McKay, Nakamura, Steinsson (2016)

- Effects of FG under incomplete markets & borrowing constraints only 40% of those in standard NK model
- Due to precautionary saving (Hhs dislike to decumulate wealth buffers)
- GE effects (due to $Y = C$) small b/c extra income goes disproportionately to rich (lower taxes)
- In contrast Werning (2015): individual income proportional to aggregate ⇒ effect of FG like in RANK /DSGE
- In HANK GE effects large? [2/3] Where does the extra income go?
- Are precautionary motives weaker in HANK than in McKay et al.?
Takeaway: Effects of Monetary Policy

- Effects of MP depend on whether it affects rich vs poor—low vs high MPCs
- Empirics: Di Maggio, Kermani, Palmer (2016)

US QE 1 worked because affected holders of mortgages (high MPC), while QE2 did not because affected holders of Treasuries (low MPC)
Summary

- Important quantitative analysis of FG in realistic setup
- New insights into how FG works (direct vs indirect channels)
- Importance of fiscal–monetary interactions
- Implications for QE?