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Discussion of

Doves for the Rich, Hawks for the Poor? Distributional Consequences of Monetary Policy

by Nils Gornemann, Keith Kuester and Makoto Nakajima

Overview

- Distributional implications of monetary policy.
- Dimensions of heterogeneity in the model
  - Productivity/Skills (exogenous),
  - Patience (exogenous),
  - Employment (job destruction exogenous, job finding endogenous),
  - Net worth (endogenous: depends on past history of shocks and consumption-saving decisions).
- All dimensions of heterogeneity matter (in particular, the endogenous net worth positions).
- Main Street prefers more dovish MP that stabilizes employment.
- Wall Street prefers hawkish MP because precautionary savings bolster asset prices.

Remarks

- Closed economy and the GE effect on prices and investment.
- Effects on portfolio composition and MP transmission.
- Heterogeneity across age dimension seems important.
- Retirement savings and the quantitative importance of precautionary savings for asset prices.
- Non-systematic MP: everyone dislikes contractionary MP shocks.
- Systematic MP: robustness and implications for optimal MP.
- Intuition for much larger consumption response compared to rep-agent model: decompose into SE versus IE.
- Low volatility of capacity utilization: intuition?

The US is an open economy

- Persistent current account deficits in the considered period 1984-2008. CA
- Who is the marginal buyer of US assets: foreigners?
- Evidence for the feedback from precautionary savings on asset prices?
- Evidence on feedback from precautionary savings on investment?

Pricing of mutual fund

- Provide bounds for asset price, instead of relying on one pricing assumption, using steady-state distribution of households?
- Robustness of results for MP transmission depending on different assumptions about pricing?

Portfolio composition, age and MP transmission

- Effect of additional saving by wealth poor may not affect prices of assets of the wealthy if
  - poor and wealthy hold different assets,
  - and markets are segmented so that arbitrage does not fully equalize returns.
- Evidence in SCF suggests portfolio composition is quite different across wealth distribution.
- Bayer et al.: differences in liquid versus illiquid asset positions in the US and the importance for MP transmission.
- Hintermaier and Koeniger: portfolio composition and life-cycle matters for MP transmission in the euro area.
- Wong: MP transmission stronger (in terms of consumption responses) for young households.

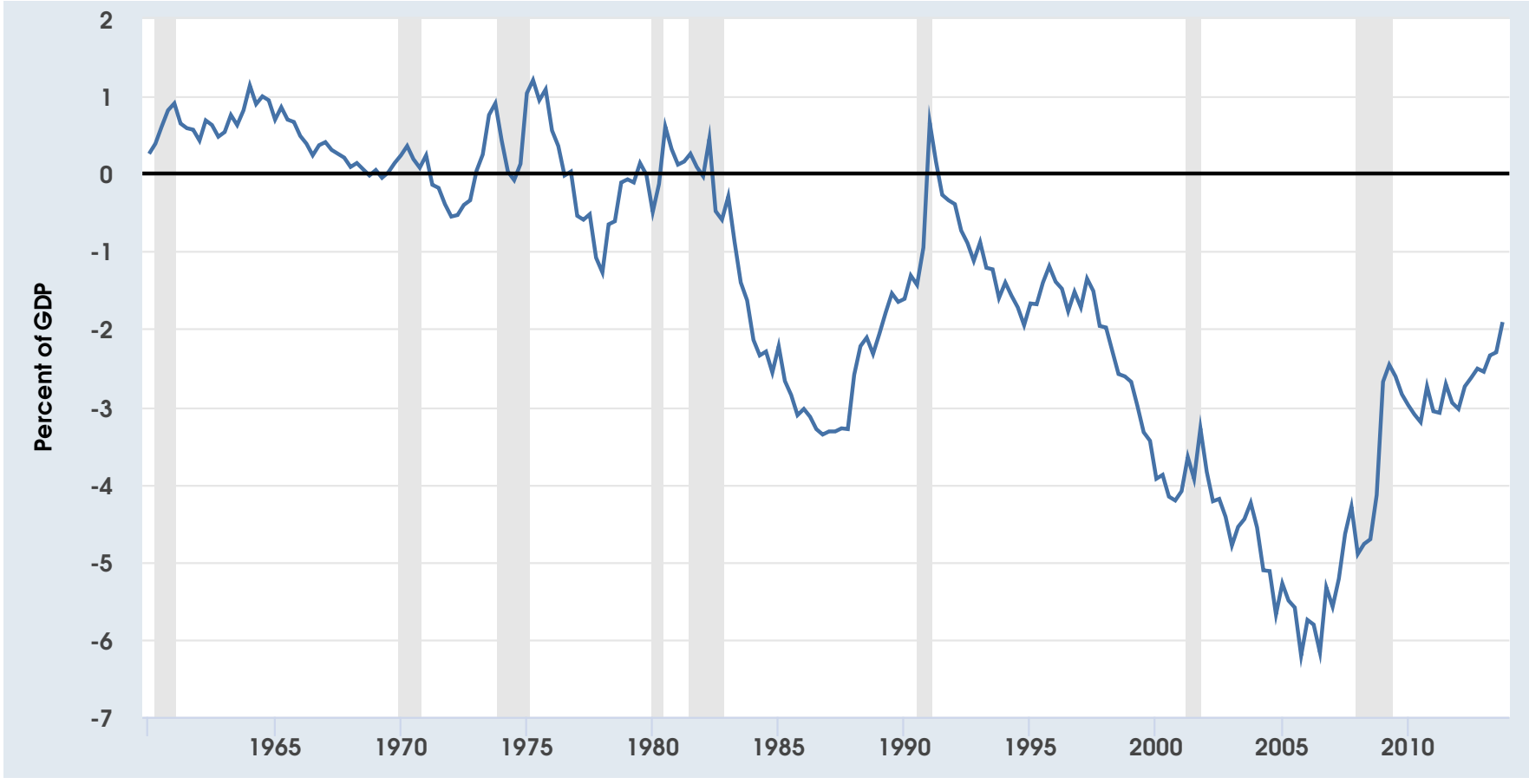
Non-systematic MP

- Noone gains from contractionary MP shocks.
- Symmetric result that everyone gains from accommodative shocks?
- What does this imply for monetary policy makers?

Systematic MP

- Compared with rep-agent model: more weight on unemployment, less weight on price stability.
- How general is this result? How does it depend on, e.g., risk aversion of wealth rich, intertemporal elasticity of substitution and risk aversion of wealth poor?
- Economy-wide profits should be more stable or not?
- Implications for optimal MP: should it react to asset prices?

Current account in the U.S. (as percent of GDP)



Source: FRED

Back