

HETEROGENEOUS EFFECTS OF MONETARY POLICY ACROSS INCOME AND RACE: THE LABOUR MARKET CHANNEL

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① GENERAL DISCUSSION

② MAIN COMMENTS

③ THEORY AND DATA

④ CONCLUSIONS

1 GENERAL DISCUSSION

2 MAIN COMMENTS

3 THEORY AND DATA

4 CONCLUSIONS

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- **Praise:** Very rich model and empirical analysis.
- Contribution of the paper:
 - Empirically identify effects of monetary policy on job transition and income inequality. *Broer et al.(2021) using German data.*
 - Theoretically, introduce labor participation and occupational choice decisions in Bewley-Aiyagari model. *Faia et al. (2021) similar model*

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 - **Composition bias:** Typical positive selection problem. Compare the average wage of the HS with the upper quantiles of the LS wage distribution after MP contraction, so that the gap goes down.
 - **Is the channel new? Is it relevant?**

COMPOSITION BIAS CHANNEL

- **Selection bias well known in labor economics:** Since Bilts (1985)'s and Solon et al.'s (1994) empirical finding that real wages are highly pro-cyclical, a general consensus has emerged on the observed 'mild' cyclicality in real wages being due to composition effects. These lead to counter-cyclical biases since low-wage jobs are the first to be destroyed during recessions (see also Pissarides, 2009).

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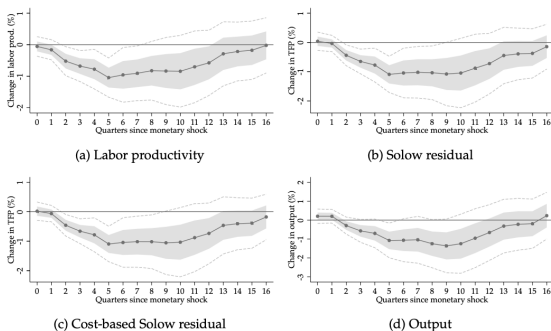
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- According to the authors, the selection bias should increase labor productivity after a monetary contraction since those bottom earners who remain employed are the most productive ones.
- The evidence does not support this mechanism

THE SUPPLY SIDE EFFECTS OF MONETARY POLICY, BAQAEE ET AL (JPE, 2023)

Figure 7: Local projection of a contractionary Romer and Romer (2004) shock (using extension by Wieland and Yang, 2020) on aggregate productivity and output.



Notes: The shaded region indicates Newey-West standard errors. Dashed lines are 95% confidence intervals. Sample covers 1969–2007.

MONETARY POLICY AND INEQUALITY OTHER CHANNELS

- **Asymmetry in production function:** HS workers can perform both HS and LS tasks, whereas LS can only perform LS jobs (Dolado et al. EJ, 2009). In such a case, a contractionary MP shock implies underemployment: there is a higher supply of workers in the LS sector, lowering LS wages so that inequality may go up rather than down.

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- **Asymmetry in non-labor income:** What matters for welfare and inequality is not only the wage but non-labor income
 - Andersen et al. (JoF, 2023) Softer monetary policy has the largest effect on salary income for households at the low end of the income distribution, reflecting a sizeable increase in employment for this group.
 - **Homeownership** College attendance is associated with higher homeownership rates (Chakrabarti et al. 2017, Fed of NY) According to Cloyne et al (Restud 2020) mortgages more sensitive to monetary policy contractions.

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 - **Consumption inequality** Even more than earnings, what matters for welfare is consumption since it should be closer to permanent income (Blundell, Pistaferri and Preston, AER). Consumption/saving choice important in model but absent in data analysis

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THEORY AND DATA DISCONNECT

1 Skill heterogeneity

- The authors adopt specifications in which the monetary policy shock is interacted with race dummy and one in which it is interacted also with an income dummy being above or below the median.
- A key ingredient of model heterogeneity is *skill heterogeneity*
- Why no interaction of monetary policy and skill level? The CPS data has information on skills and the model has clear predictions on skill heterogeneity channel.

2 Full HANK in theory but TANK in the data

- Why study dynamics only below and above median and not quantile regressions?
- Especially because the model is rich enough to deal with more than two income groups.

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CONCLUDING REMARKS

- **Novelty:** Analyze the labor mobility channel of monetary policy with detailed CPS data
- Composition issue on wages is well understood in related literature and can be easily amended.
- Wages is only a small part of transmission of monetary policy shocks (Andersen et al 2023 JoF). Consumption inequality is much more relevant for welfare.
- **My suggestion:** Dig deeper into heterogeneity of labor mobility in the data and use your rich model to interpret your findings allowing for a trickle down of unemployment.