

(Un)Conventional Monetary and Fiscal Policy

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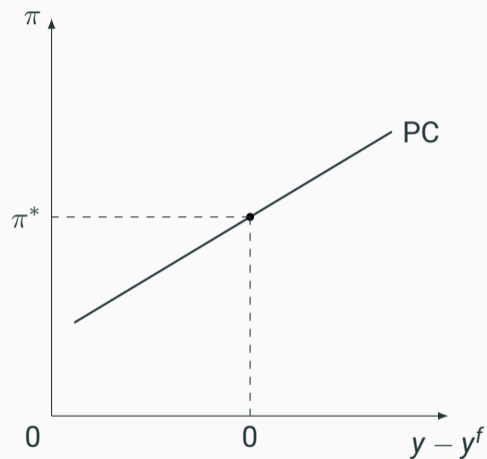
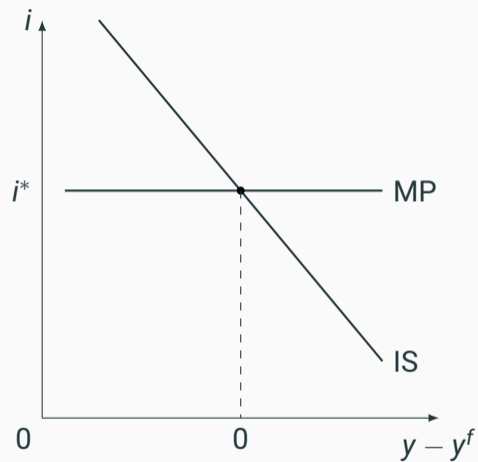
Discussion by Hikaru Saijo (UC Santa Cruz)

ASSA 2024

A framework to jointly study conventional & unconventional policies

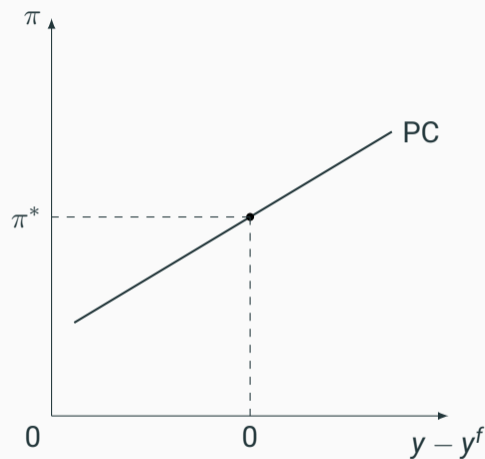
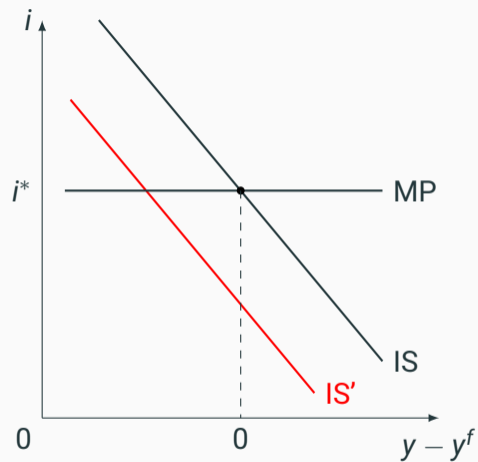
- **Very nice paper with rich insights**
- A parsimonious model to analyze important policy questions
- Novel: stabilization of output gap & inflation (divine coincidence) from an interest rate policy **together with QE or fiscal transfers**
- Insight: unconventional policies useful even in normal times

IS-MP-PC diagram: representative-agent NK model



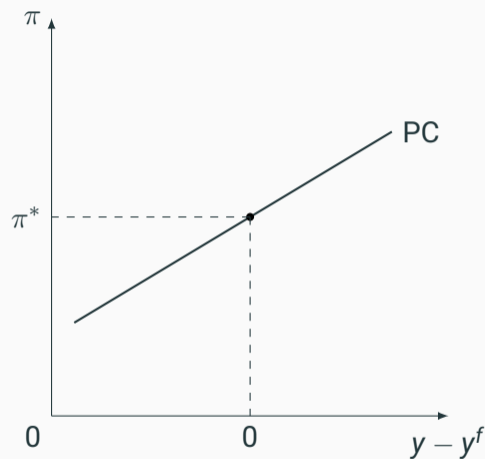
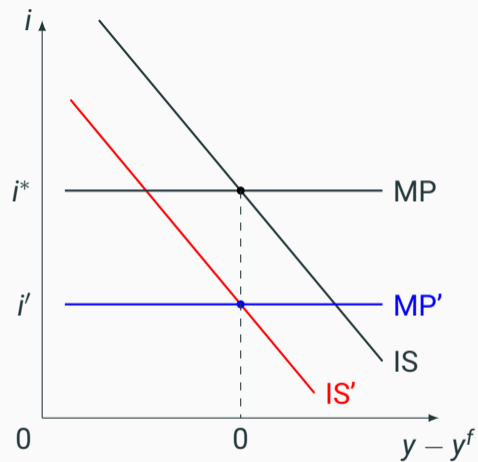
Chad Jones "Macroeconomics" textbook

Divine coincidence: TFP shock



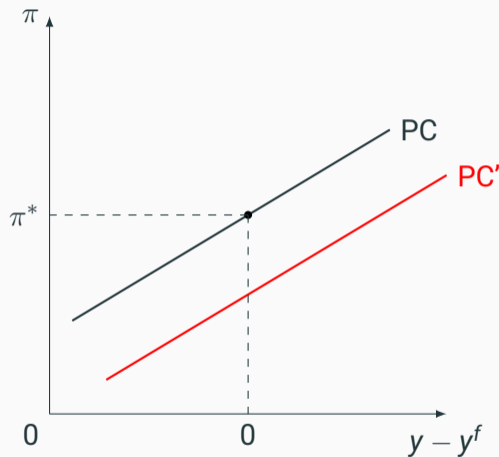
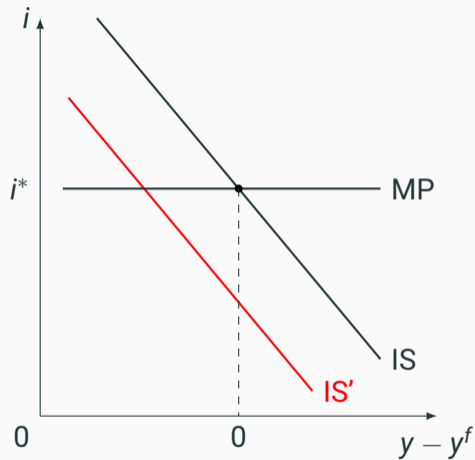
Key: tight link between output gap and inflation in the Phillips curve

Divine coincidence: TFP shock



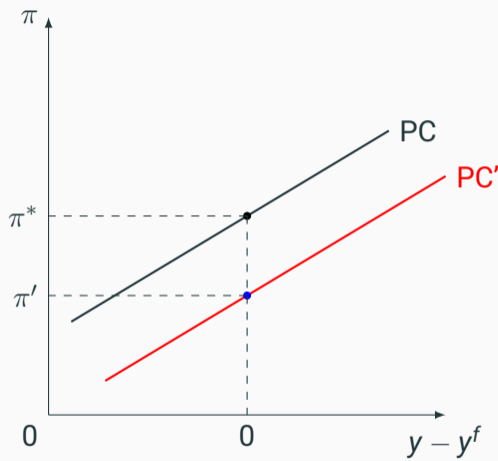
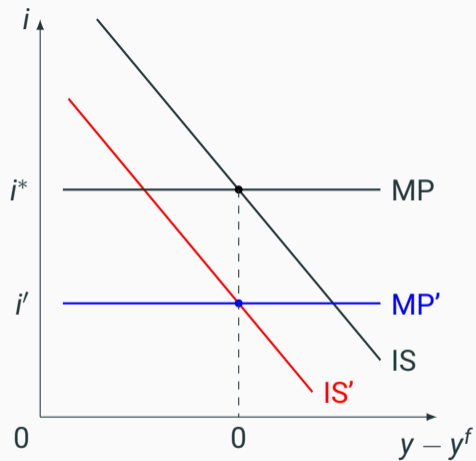
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Breaking the divine coincidence: TFP shock + real rigidities



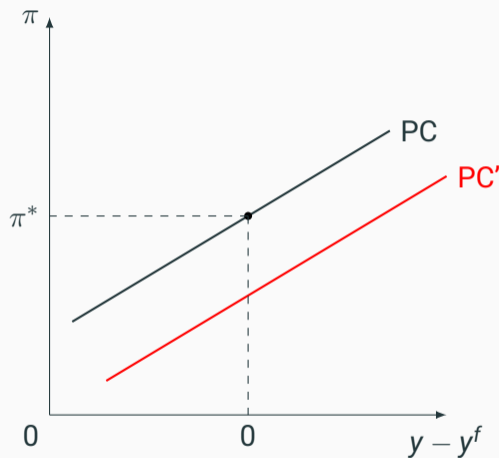
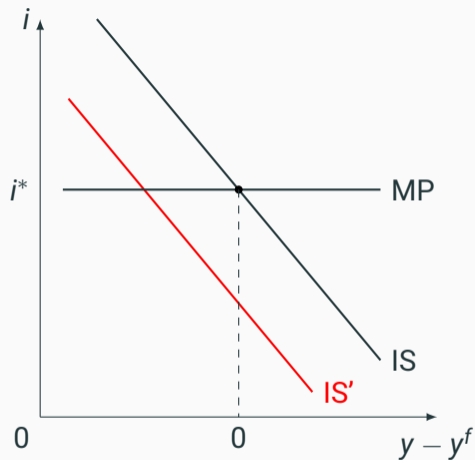
This paper: household heterogeneity with borrowing constraint

Breaking the divine coincidence: TFP shock + real rigidities



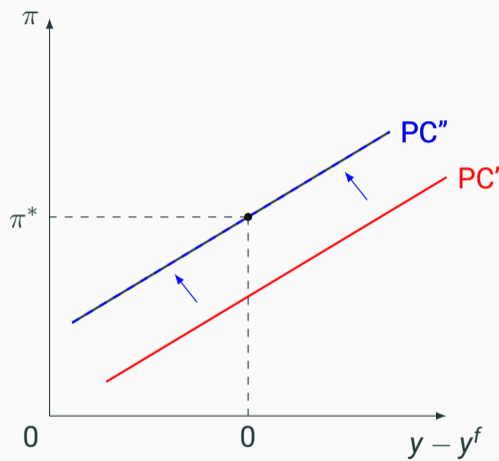
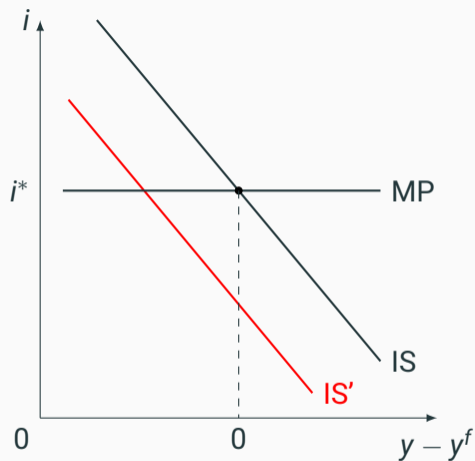
This paper: household heterogeneity with borrowing constraint

Restoring the divine coincidence: conventional MP + (QE or transfers)



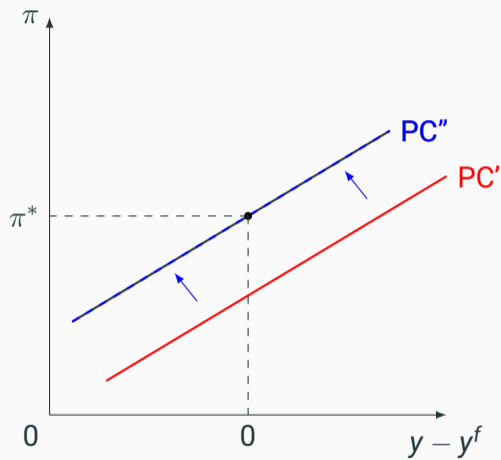
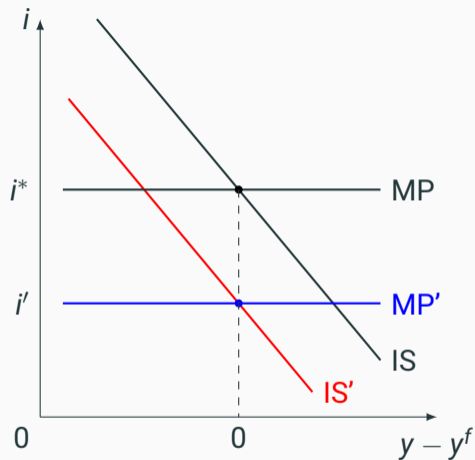
Intuition: neutralize real rigidity (borrowing constraint) through QE or transfers

Restoring the divine coincidence: conventional MP + (QE or transfers)



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Restoring the divine coincidence: conventional MP + (QE or transfers)



Intuition: neutralize real rigidity (borrowing constraint) through QE or transfers

What happens when we cannot use conventional monetary policy?

- **Can a combination of QE and transfers restore the divine coincidence?**
- No (in this model)
 - QE and transfers works through the same channel \Rightarrow isomorphic (increasing constrained HH's consumption by relaxing borrowing constraint)
- Reasons to think QE and transfers may work differently
 - QE: firm credit constraint channel, signalling effect, ...
 - Transfers: labor supply effect of constrained HH, ...
- Allowing for these additional channels could generate richer insights into how unconventional policies help stabilize macroeconomy