HANK by KMV

comments by erm

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What They Do

- Compare impact of monetary shock for RANK & HANK
  - Total initial responses of consumption
  - And a decomposition:

    Direct effect: Hold labor income fixed

    Indirect effect: Allow changes in labor income

- Claim: need this for "successful conduct" of policy

Contribution

- Now, lots of analyses of monetary transmisssion in HANK
- But, analyze rich model of consumption/savings behavior

What They Find

	$d \log C / dr$	% Direct Effect
RANK-SW	-0.7	99
RANK-KMV	-2.1	94
HANK-KMV	$[-1.7, -2.9]$	[19,42]

SW = Smets-Wouters estimate for estimated model of US

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RANK-KMV elasticity 3 times larger

What They Find

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HANK elasticity not necessarily larger, depends on fiscal policy

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KMV emphasize direct effect

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Which is large if there are few "hand to mouth" households

What They Find

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And small if there are many "hand to mouth" households

Potential Audiences

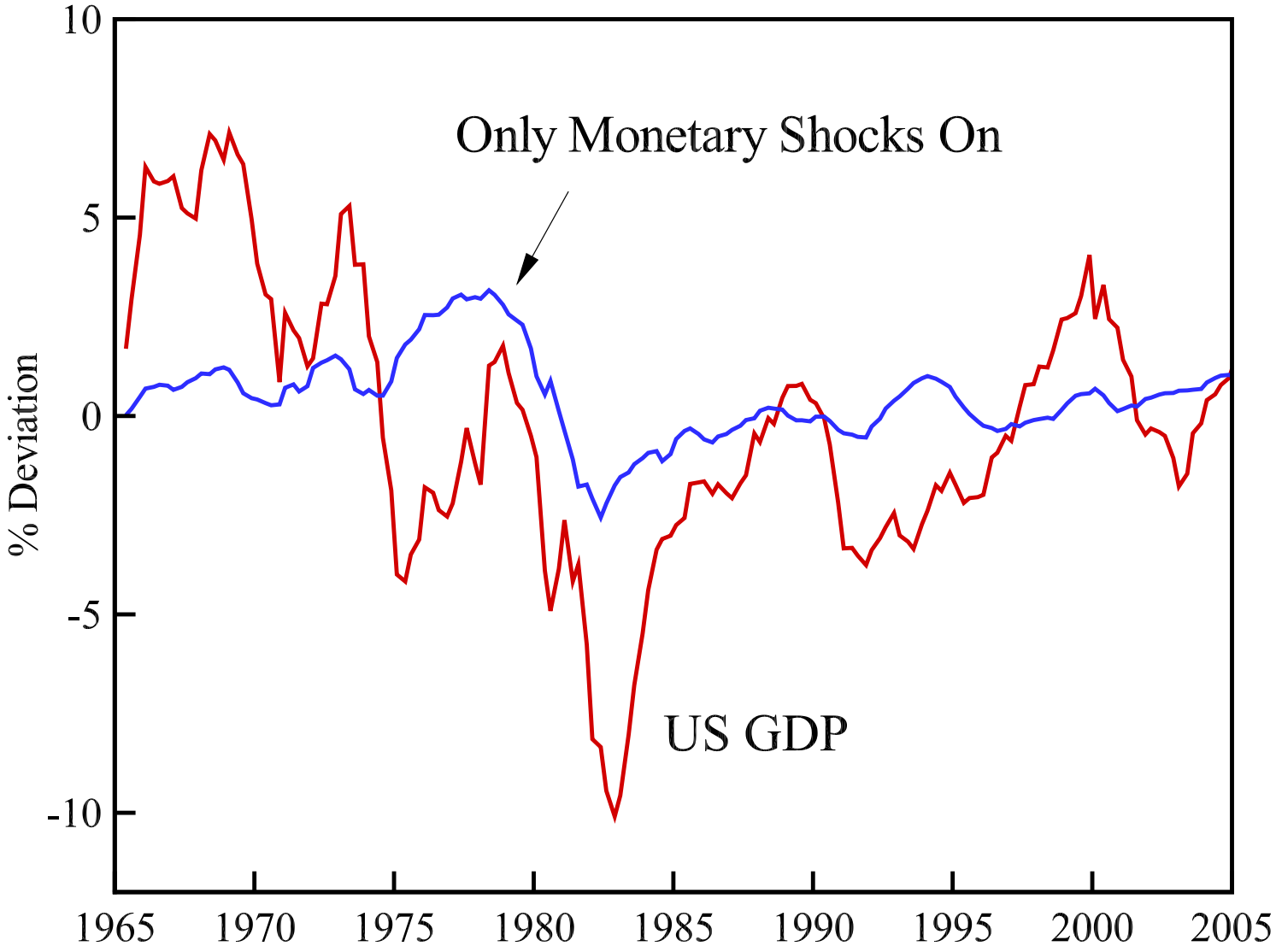
- Business cycle analysts
- Monetary policy analysts
- Fiscal policy analysts

Business Cycle Analysts

- Should they give up RANK?

- No, differences in aggregate predictions too small

Predictable from SW Results



GDP, US Data and Contribution of Monetary Shocks

Monetary Policy Analysts

- Should they give up RANK?
- Possibly, but KMV need to show
  - If DGP is HANK, RANK users will be unsuccessful
  - HANK with many HtMs is useful abstraction

RANK Unsuccessful?

- Trade-offs RANK might miss
  - Size versus persistence of shock
  - Inflation versus output

But, results surprisingly similar and hard to detect!

Is HANK-KMV a Useful Abstraction?

- Key assumptions:
  - Scarce liquidity
  - High transaction costs
  - Fed Funds is relevant interest rate

How realistic?

Scarce Liquidity? No

	KMV	BOG
Net Worth	3.47	4.56
Liabilities	.80	.90
Real estate	1.71	1.71
Business	.59	.59
Durables	.33	.34
LI & Pensions	–	1.11
Deposits	.47	.48
Bonds	.13	.40
Stocks	1.03	.80
Liquid assets?	.26	1.68

Scarce Liquidity? No

- And more liquidity from borrowing against:
  - Home equity
  - Business equity
  - Life insurance and pension assets

High Transaction Costs? No

- Exchange-traded funds (ETF)
  - No fees
  - 1 share minimum

Why are Households on Corners?

Why are Households on Corners?

- One major reason is college financial aid
  - 70% of full-time students receive aid
  - 46% of student budget covered
- House, pensions, business not counted on FAFSA

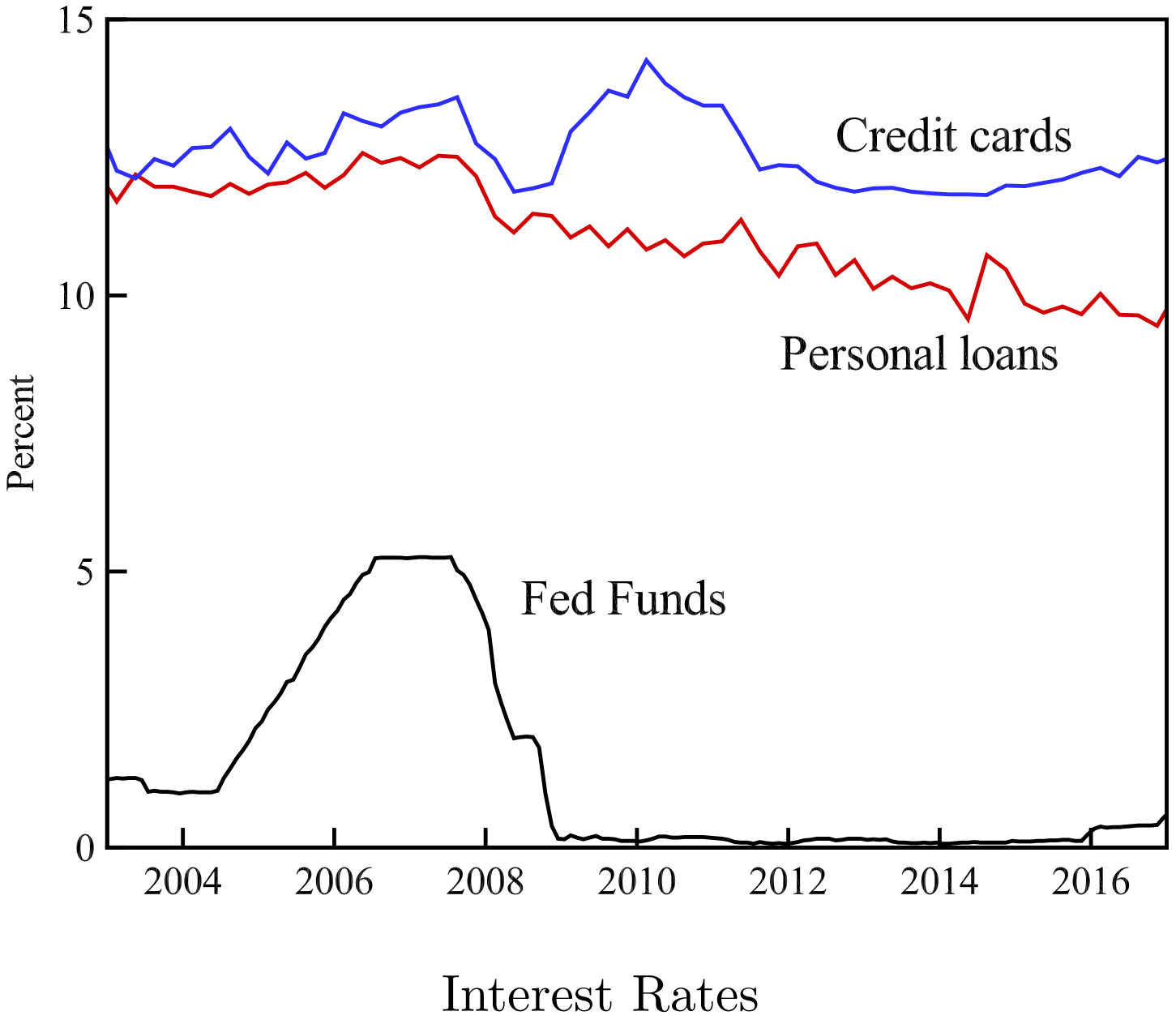
$\Rightarrow$ Optimal to look *as if* hand to mouth

Fed Funds Rate Relevant? Not likely

- Relevant rates:
  - Credit cards
  - Personal loans

  which barely move in response to Fed actions

Fed Funds Rate Relevant? Not likely



Fiscal Policy Analysts

- Quantitative results depend on fiscal policy
- Specifically, how is budget balanced?
  - Transfers?
  - Debt?
  - Distortionary taxes?

Fiscal Policy Analysts

- Should they give up RANK?
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Fiscal Policy Analysts

- Should they give up RANK?
- Possibly in favor of RA or, better yet, HA
- KMV could consider new title:

  Fiscal Policy According to HA

Main Recommendations

- If stick with HANK ...
- Show
  - If DGP is HANK, RANK users will be unsuccessful
  - HANK with many HtMs is useful abstraction
- Clarify
  - What successful conduct of monetary policy means
  - Why knowing direct/indirect split is essential