Introduction

- In HANK models changes in the wealth distribution have macro implications.

- Role of capital gains and equity prices in the transmission of monetary policy.

- Connect the HANK literature with recent and growing empirical literature.

Empirical Analysis

Overview

- Consumption and wealth from the Consumption Expenditure Survey (CE).

- Berger, Bocola, and Dovis (2023). (QJE)

- Nondurable consumption and services.

- Liquid financial wealth (deposits, bonds, stocks).

- Combine quarterly consumption time series for different wealth groups.

- Jarociński and Karadi (2020), C. Romer and D. Romer (2004).

Data

Sample restrictions:

- The CE has a rotating panel structure.

- Use the assigned survey sample weights.

- Use CPI to express all variables in constant 2000 dollars.

- Household's head between 22 and 64 years old.

- I exclude incomplete income reporters, households with negative earnings and with zero or negative consumption.

- Average 4,518 households per year and period is 1991Q2-2016Q4.

Data

	Mean	Std. Deviation	10th P.	Median	90th P.
Age	44	11	29	44	59
Family size	2.8	1.5	1	2	5
Consumption	22,306	14,842	8,623	19,198	38,811
Cons. per person	9,501	6,984	3,374	7,864	17,152
Liquid assets	27,956	154,484	0	1,234	46,479
Earnings	51,755	48,021	1,478	41,600	105,748
Liquid assets (CE)	34,081	184,548	0	1,323	53,791
Liquid assets (SCF)	172,313	1,044,840	23	14,931	353,976

Note: Annual consumption shown. The last two rows report statistics for 2004 across surveys.

Data

Cross-sectional time series:

- Use information on wealth in the previous 12 months.

- Household i in quarter t is assigned to a group $g = 1, 2, ..., G$.

- Compute quarterly series of total consumption for each group.

Measurament errors, noise, and outliers:

- Winsorize consumption series at the top and bottom 1% in each quarter.

- Same for dependent variable used in the regressions.

- Smooth consumption with a moving average.

Data
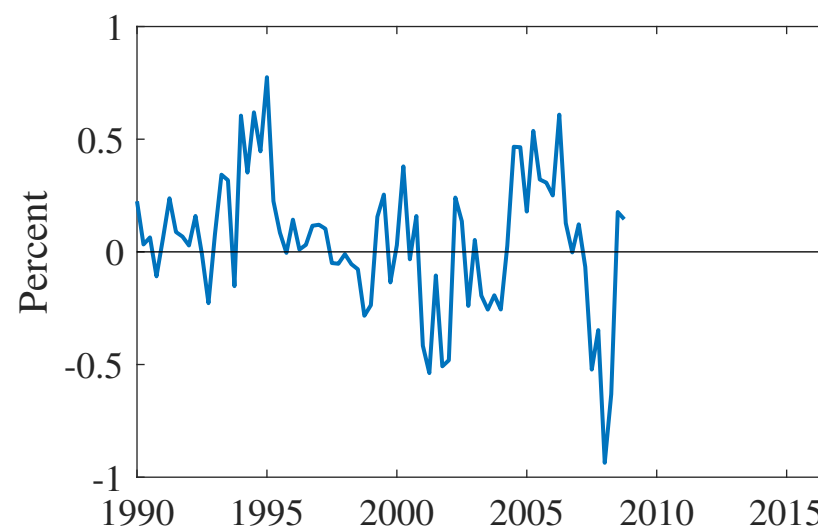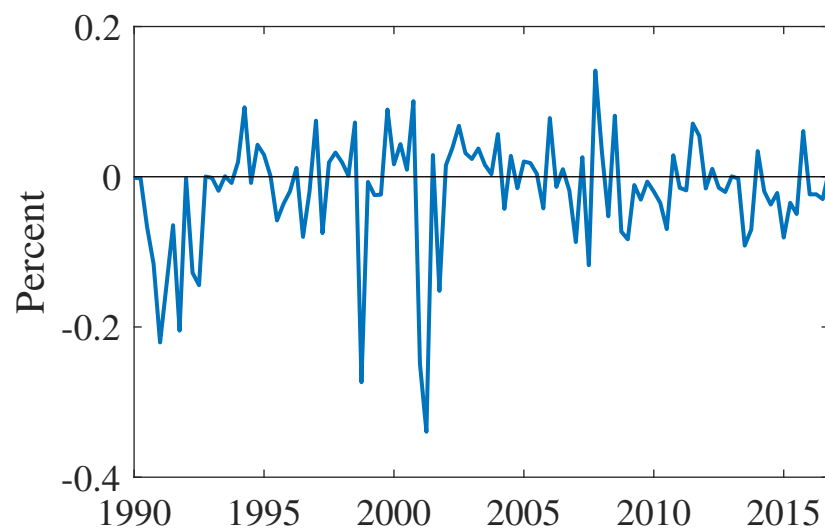
- JK (left) proxy SVAR with high-frequency instruments cleaned for info shocks.

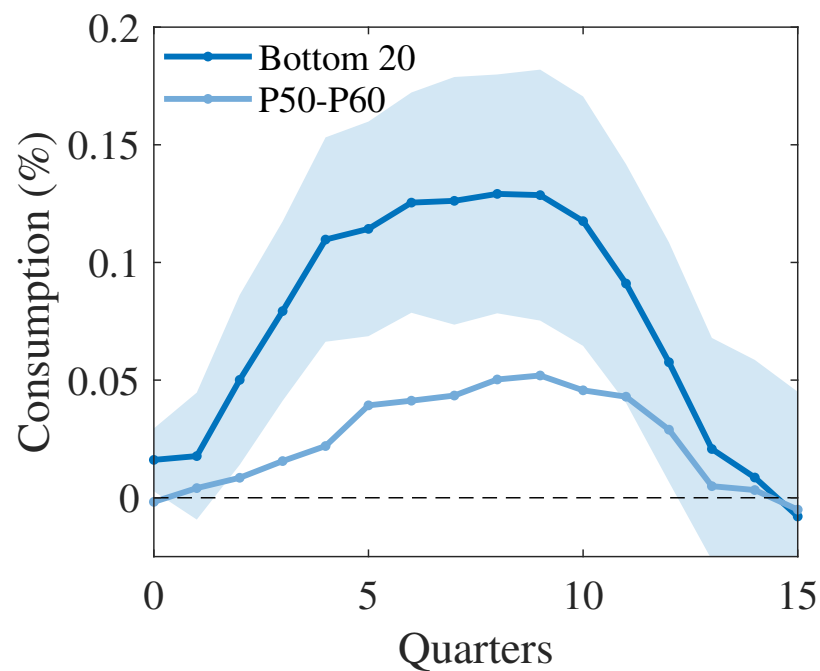- RR (right) regression of FFR on bank's forecasts of its targets.

Model

$$\frac{y_{g,t+h} - y_{g,t-1}}{y_{t-1}} = \alpha_{g,h} + \beta_{g,h} v_t + \sum_{p=1}^{L} \delta'_p x_{g,t-p} + u_{g,t}, \tag{1}$$

- Dep. variable: Quarterly consumption changes.

- v_t is a monetary policy shock.

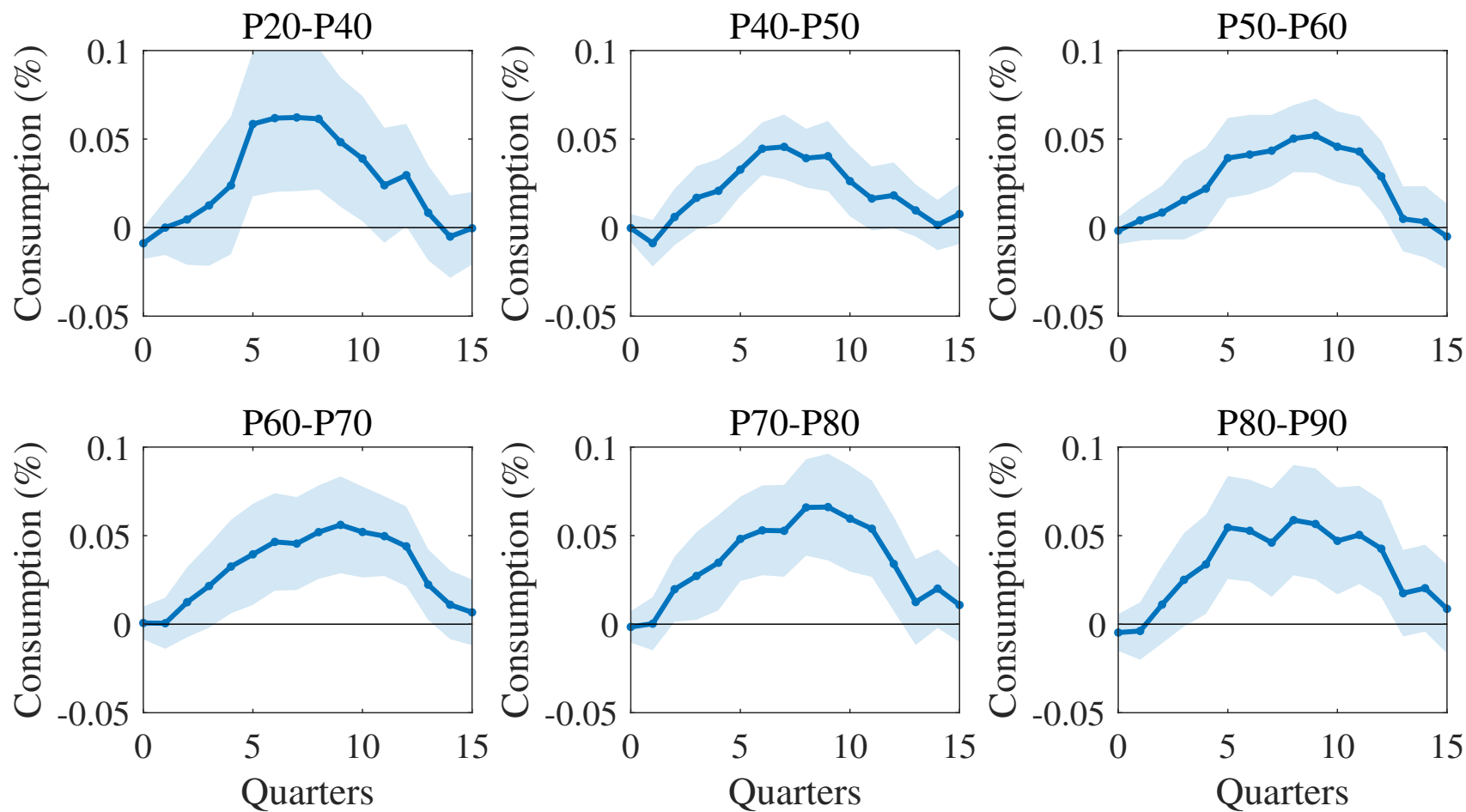- Control for lags of the level $y_{g,t}$ and shocks v_t.
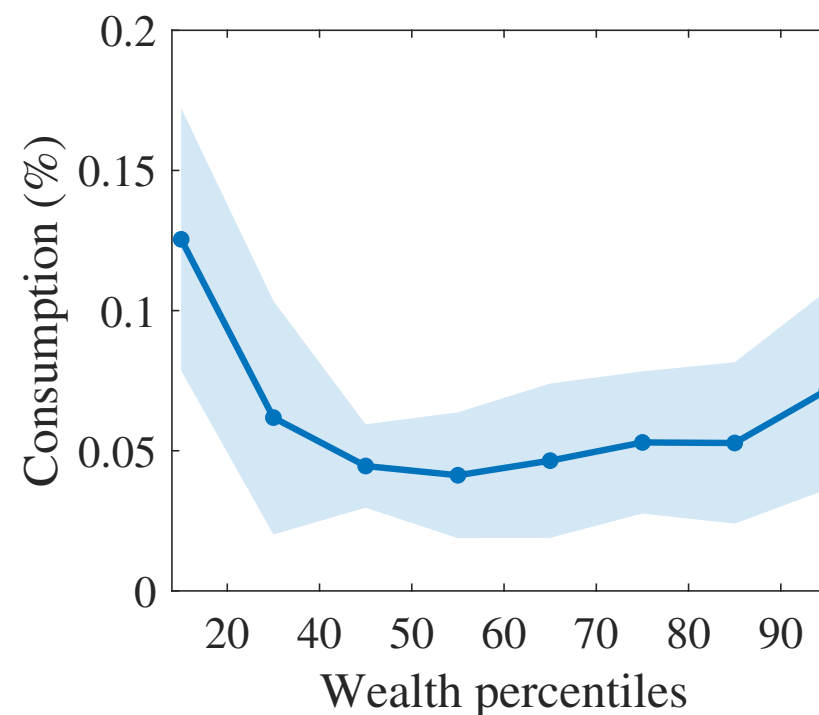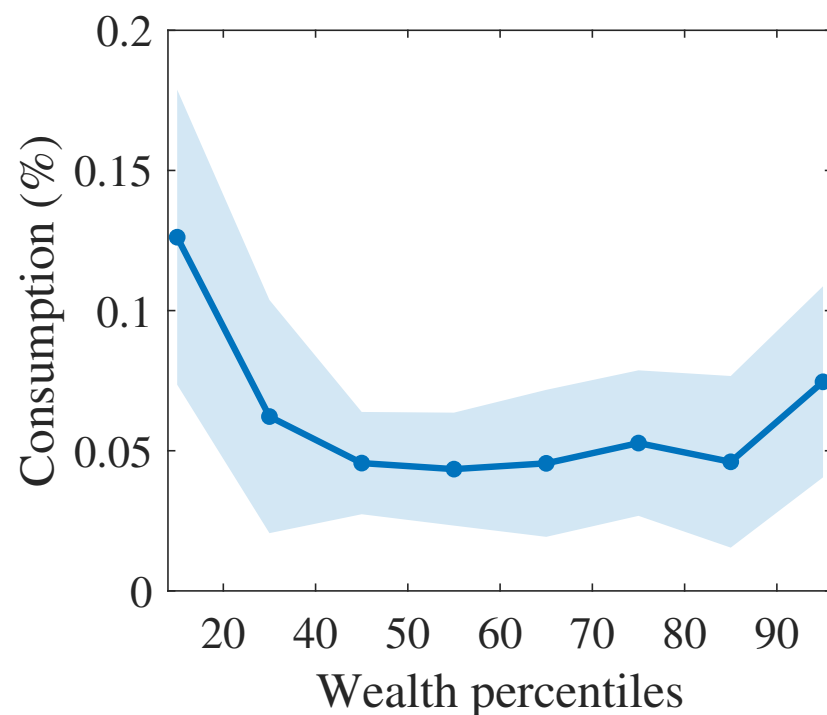
- y_t is the CE aggregate consumption.

Results
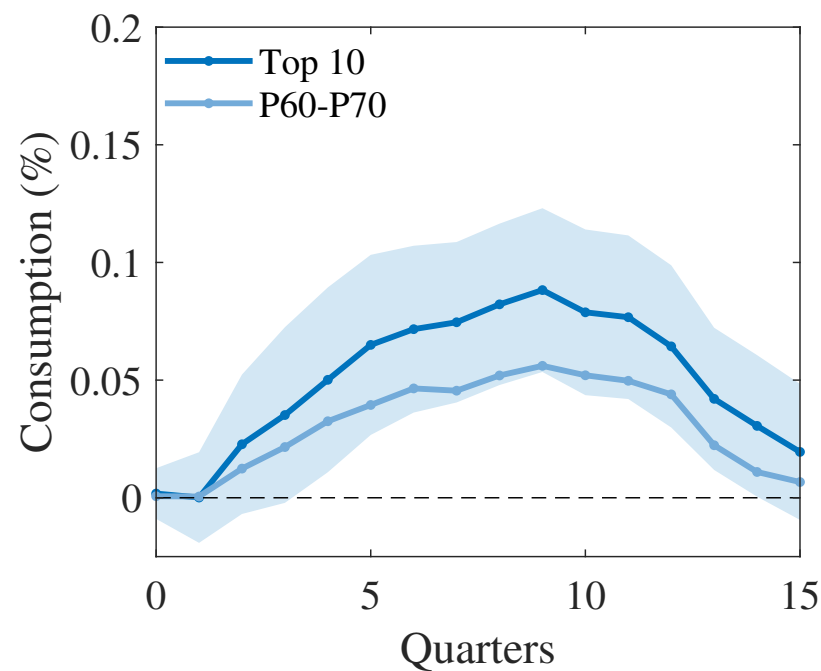
- Responses to an interest rate cut of 100 basis points.

- 68% HAC confidence bands.

Results
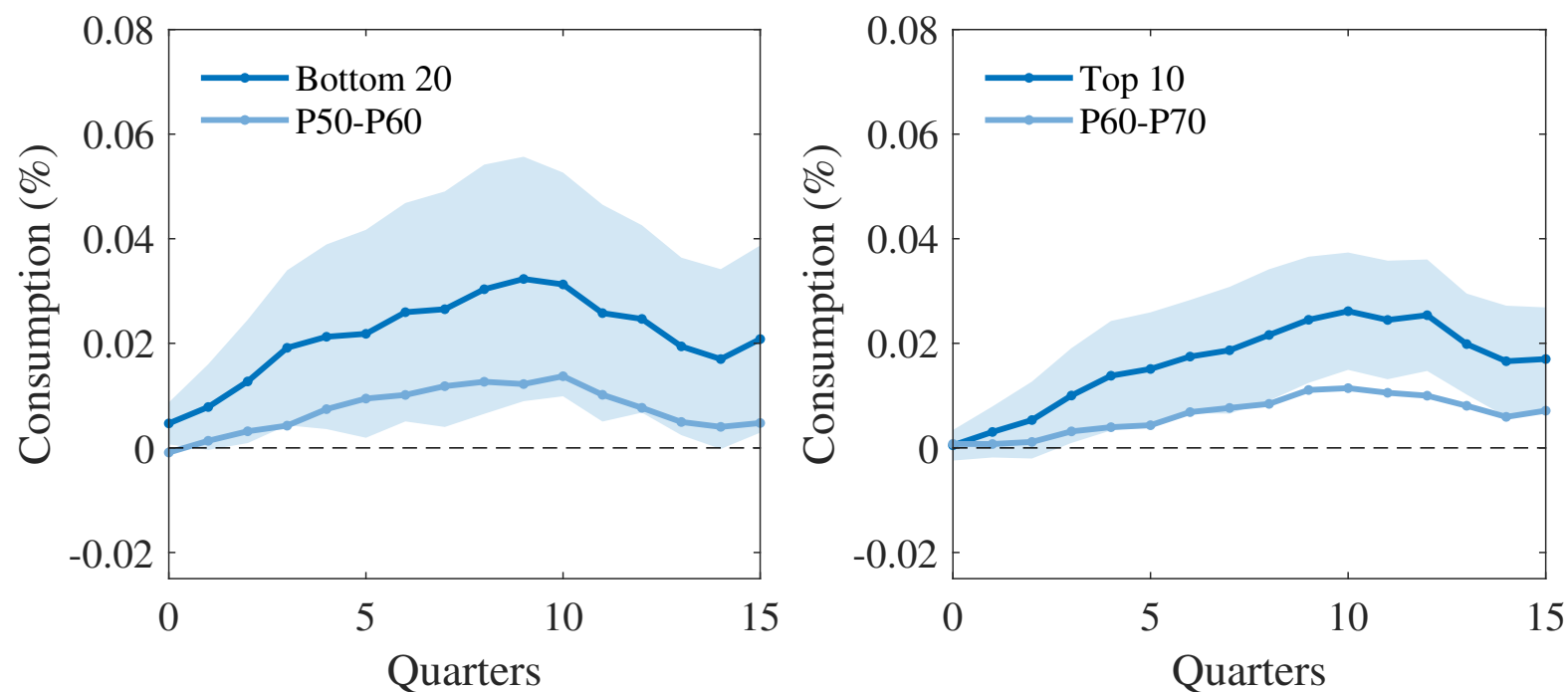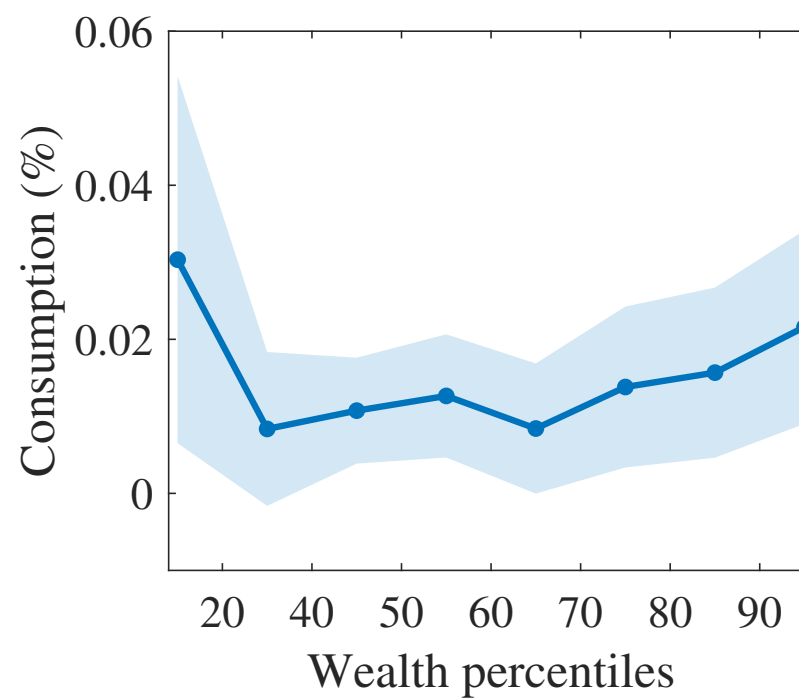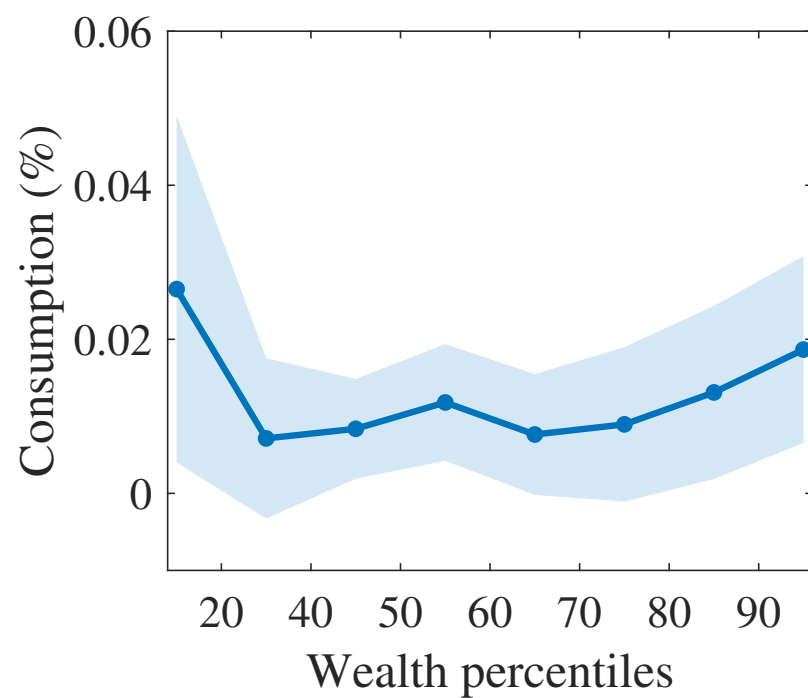
Results

- Cross-sectional effects between 1 and 2 years after the shock.

- The response at the top 10% > 1.5 times the response of any other group.
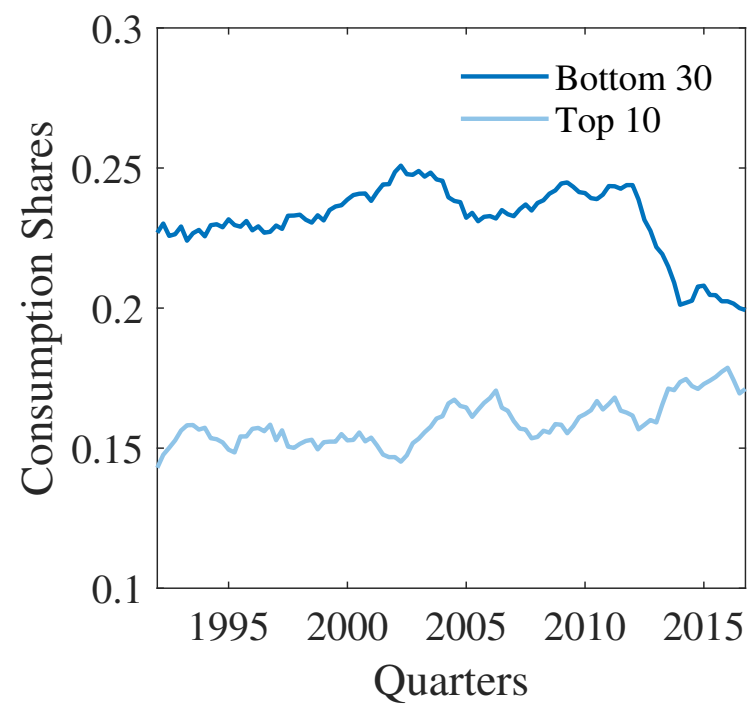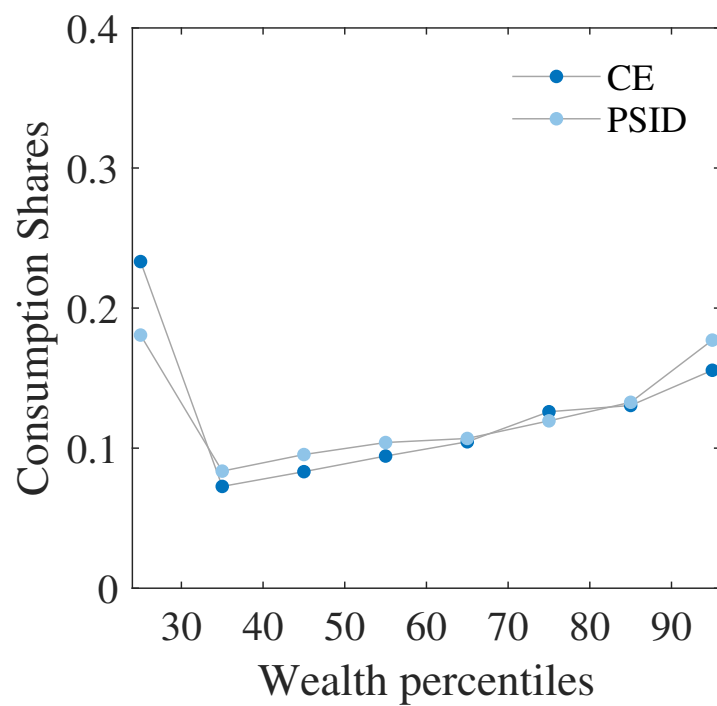
Robustness check - RR shocks

- 100 bp interest rate cut with RR series.

- The absolute size of the effects is lower (RR series has larger shocks).

- Same dynamics same cross-sectional pattern.

Robustness check - RR shocks

Consumption shares

References

Berger, David, Luigi Bocola, and Alessandro Dovis (2023). "Imperfect Risk Sharing and the Business Cycle". Working Paper.

Jarociński, Marek and Peter Karadi (2020). "Deconstructing Monetary Policy Surprises—The Role of Information Shocks". In: *American Economic Journal: Macroeconomics* 12 (2), pp. 1–43.

Romer, Christina and David Romer (2004). "A New Measure of Monetary Shocks: Derivation and Implications". In: *American Economic Review* 94 (4), pp. 1055–1084.