

“Wealth Distribution and Monetary Policy”

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Introduction

How does wealth inequality shape the transmission of monetary policy to household consumption?

- Recent work on interactions between heterogeneity and the macroeconomy.
 - Existing literature emphasize the role of low-liquidity households.
- In advanced economies wealth is highly concentrated at the top.
- Macroeconomic impact of top wealth groups?
- Evidence on the responses to monetary policy from Denmark and Norway.

Contribution

To quantify the contribution of different wealth groups I combine:

- The joint distribution of consumption, income, and wealth in the US.
- Quantitative Heterogeneous Agent New Keynesian (HANK) model.
- The model calibrated to replicate wealth concentration in the US.
- Validate the model with US micro data (SCF and PSID).
- Leverage the model to analyze the impact of different wealth groups on:
 - Aggregate consumption response to monetary policy.
 - Transmission mechanism of monetary policy.

Main findings

1. Heterogeneous income and consumption responses across wealth groups:
 - Households at the tails of the wealth distribution show the largest responses.
2. Top wealth groups substantially shape aggregate consumption response.
 - Top 10% explains more than one-third of the aggregate response.
 - Wealthy households benefit from higher equity prices and capital gains.
 - Have low MPCs but sizable consumption shares.
3. Wealth distribution matter in the propagation of monetary policy (MP):
 - Endogenous changes in the wealth distribution that amplify the effects of MP.

Literature

- Quantitative work on monetary policy and household heterogeneity: Kaplan, Moll, and Violante (2018), Gornemann, Kuester, and Nakajima (2021), Auclert, Rognlie, and Straub (2020), Lee (2021), Wolf (2021).
- Empirical work on effects of monetary policy across distribution of liquid assets: Holm, Paul, and Tischbirek (2021).
- Interactions between inequality and monetary policy: Luetticke (2021), Bilbiie, Kanzig, and Surico (2019), Auclert (2019), Melcangi and Sterk (2020).
- Literature on wealth inequality: Castañeda, Díaz-Giménez, and Ríos-Rull (2003), Poschke, Kaymak, and Leung (2021).
- Heterogeneous Agents and the macroeconomy: Alves, Kaplan, Moll, and Violante (2020), Debortoli and Galì (2022), Bilbiie (2021).

Model

Households

- Let ψ_t be the cross-sectional distribution over the state space X .
- Markets are incomplete, given states $x = (a, e)$ households solve

$$\max_{(c_t)} \mathbb{E}_0 \int_0^\infty e^{-\rho t} u(c_t, n_t) dt, \quad (\text{H.1})$$

$$\text{s.t. } da_t = (w_t e_t n_t + r_t a_t + d_t - c_t) dt,$$

$$a_t \geq -\phi.$$

- Households trade bonds and accumulate capital.
- Firms' profits D_t are distributed according to $d_t = (e_t / \int_X e_t d\psi_t) D_t$.
- High-income households receive a larger share of profits.

Wage and price rigidities

- Households supply a continuum of labor services (imperfect substitutes).
- Unions set nominal wages by maximizing the average welfare.

$$\pi_{w,t} \left(r_t - \frac{\dot{N}_t}{N_t} \right) = \dot{\pi}_{w,t} + \frac{\epsilon_w}{\Psi_w} \left(\frac{v'(N_t)}{u'(C_t)} - w_t \mu_w^{-1} \right).$$

- Intermediate input producers operate under monopolistic competition.
- Intermediate producers set prices to maximize profits.

$$\pi_t \left(r_t - \frac{\dot{Y}_t}{Y_t} \right) = \dot{\pi}_t + \frac{\epsilon_p}{\Psi_p} (mc_t - \mu_p^{-1}).$$

Financial sector and monetary policy

- The investment fund owns the economy capital stock K_t .
- The fund rents capital to the input producers and invests in new capital.
- Let $\iota_t = I_t/K_t$, the investment problem is

$$V_0 := \max_{\iota_t} \int_0^\infty \left[\exp\left(-\int_0^t r_s ds\right) \left((r_t^k - \iota_t)K_t - \chi_t(\iota_t) \right) \right] dt$$

s.t. $\dot{K}_t = (\iota_t - \delta)K_t$.

- The market value of capital is given by $V_t = q_t K_t$.
- Taylor rule $i_t = r + \phi_\pi \pi_t + v_t$ with an interest rate policy $v_t = e^{-\eta t} v_0$.

Equilibrium

Definition 1. The equilibrium is $(c_t, n_t), (K_t, N_t, Y_t, I_t, C_t, D_t), (r_t, q_t, w_t, \pi_t, \pi_{w,t}) :$

1. Households and unions maximize utility.
2. Firms maximize profits and minimize costs.
3. Markets clear

$$V_t = \int_X a_t d\psi_t,$$
$$N_t = \int_X e_t n_t d\psi_t.$$

4. Monetary policy follows a Taylor rule.
5. The sequence of distributions satisfies aggregate consistency conditions.

Nonlinear system of PDEs solved numerically with global methods.

Parametrization

Calibration strategy

- Two challenges:
 - Match wealth distribution including its Pareto tail.
 - Jointly match aggregate wealth holdings and average MPC.
- To relax this trade-off:
 - Extraordinary earning states as in [Castañeda, Díaz-Giménez, and Ríos-Rull \(2003\)](#), [Poschke, Kaymak, and Leung \(2021\)](#).
 - Calibrate to financial wealth.
- Functional forms: CRRA utility function, Cobb-Douglas production function, quadratic investment, price, and wage adjustment costs.

Calibration

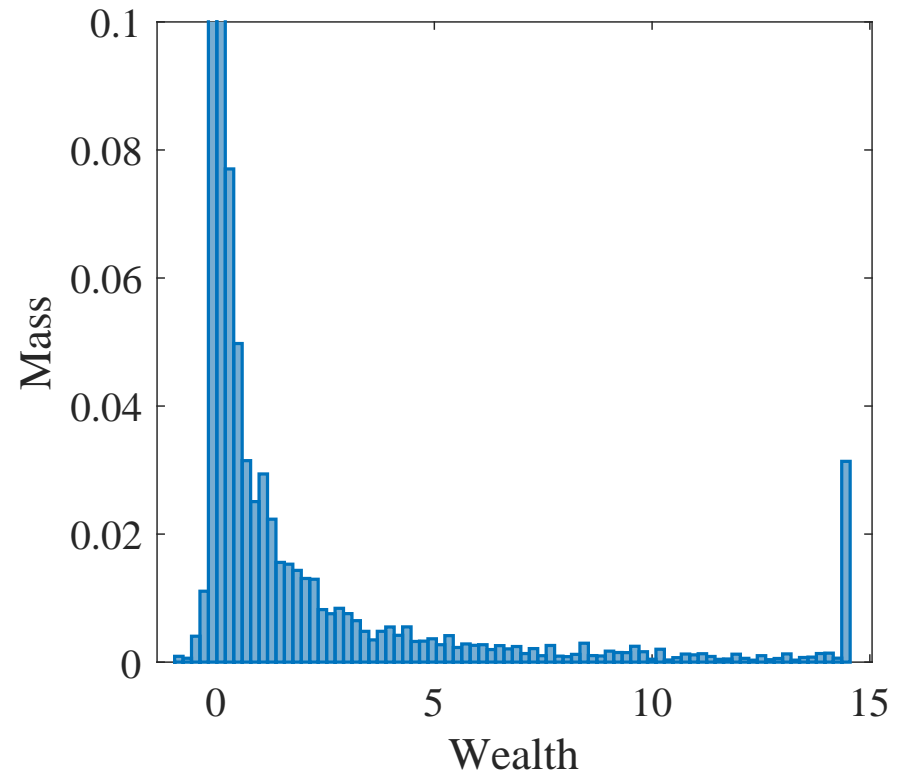
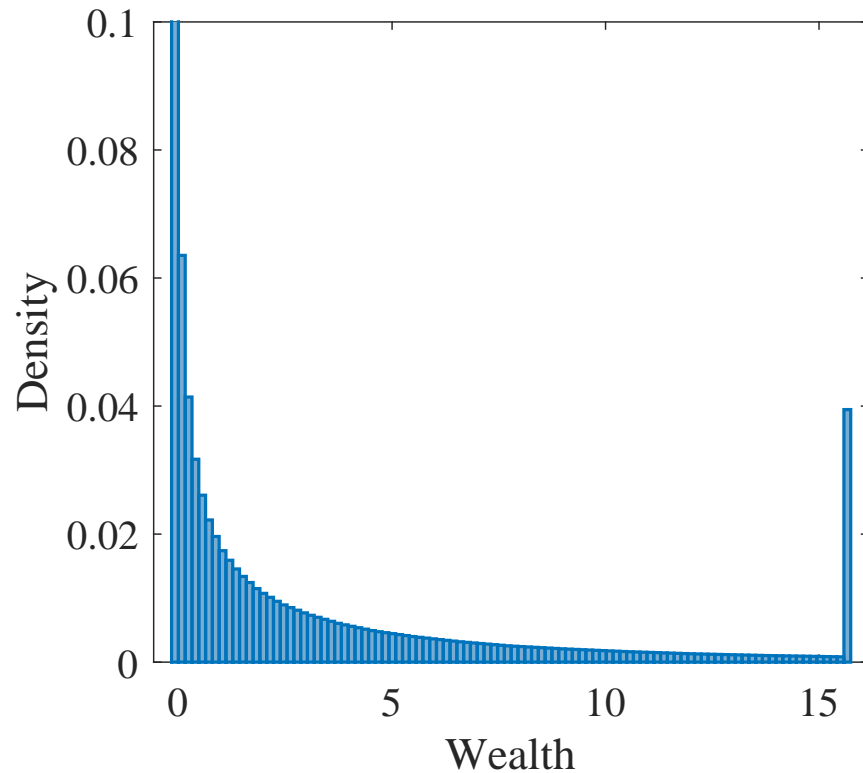
- Externally calibrated: Preferences, technology and New Keynesian block.
- Internally calibrated parameters: $\rho, e_1, e_2, \lambda_1, \lambda_2, \theta_1, \kappa$.
- Targeted moments:
 - Wealth-output ratio, aggregate return to wealth.
 - Gini coefficients of earnings and wealth.
 - Top 0,1%,1% earning shares.
 - Overall fraction of low-liquidity households.
 - Peak of real interest rate response.

Model fit

Table 1: Targeted statistics

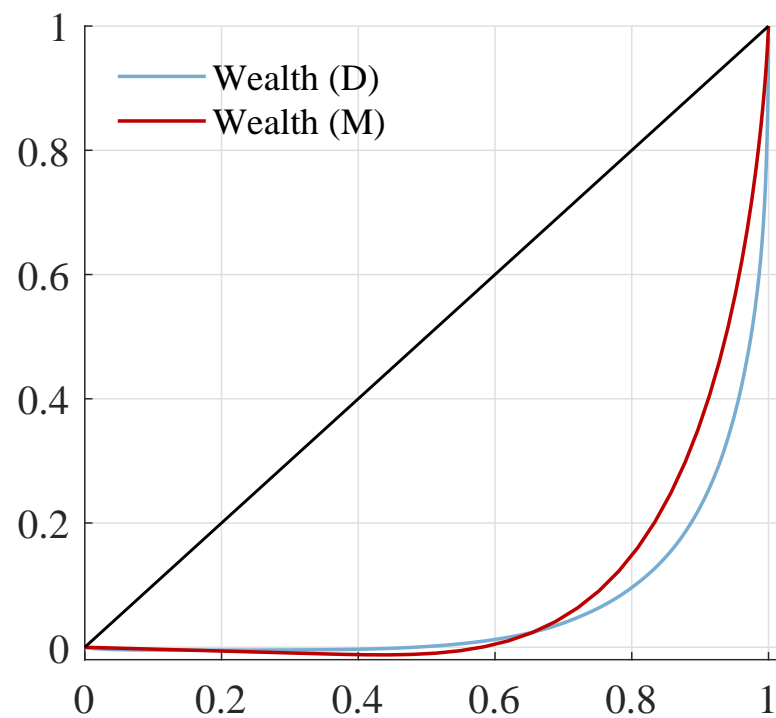
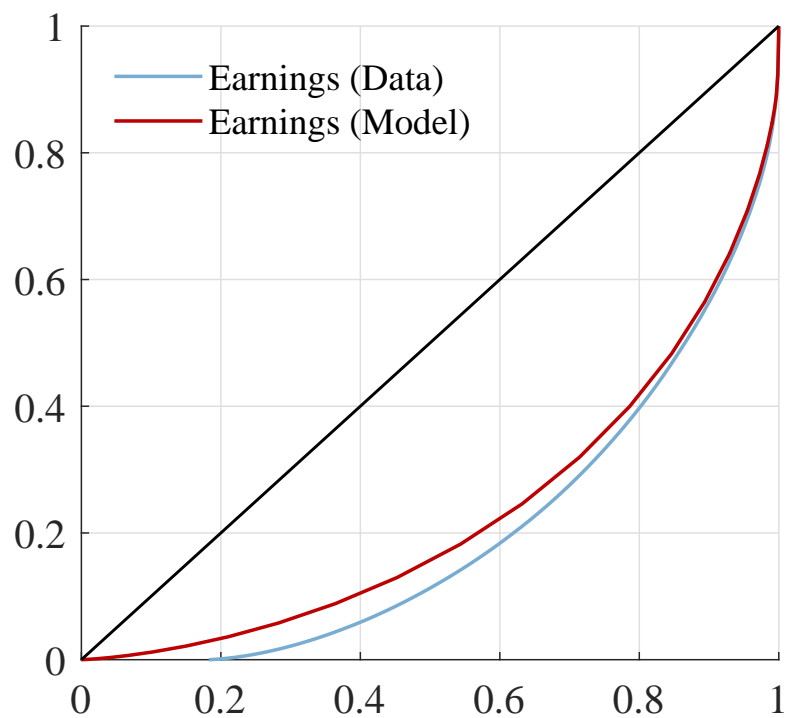
Targeted Statistics	Data	Model
Financial wealth-output ratio	1.42	1.6
Aggregate return on wealth	.065	0.74
Fraction with $a = \phi$	0.3	0.32
Gini wealth	0.87	0.81
Gini earnings	0.59	0.54
Top 0.1% earnings share	6	6
Top 1% earnings share	16	15.5

Wealth Distribution

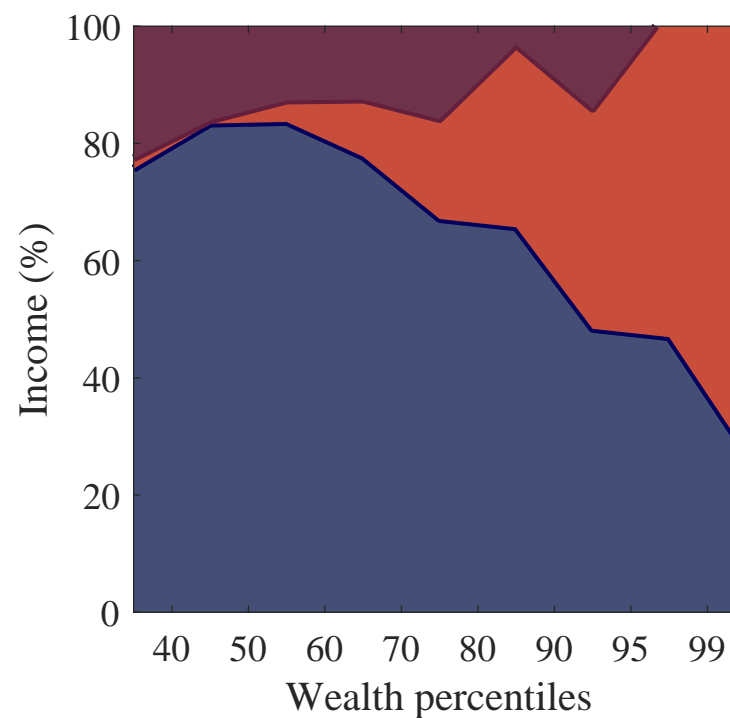
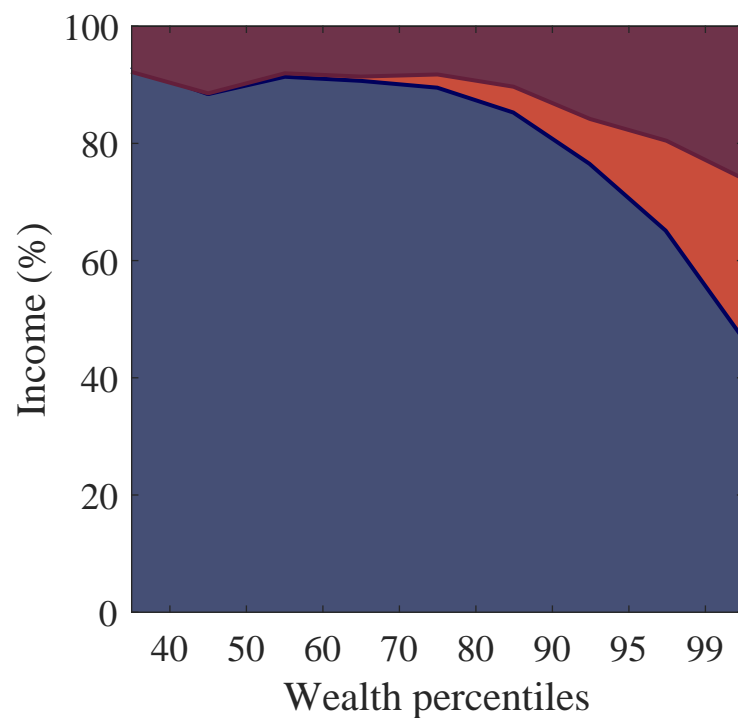


- mean wealth data 2.5 and 2.7 model, median wealth 0.17 and 0.12.
- 75th percentile 1.3 and 2.3, 90th percentile 5 and 8.

Marginal distributions

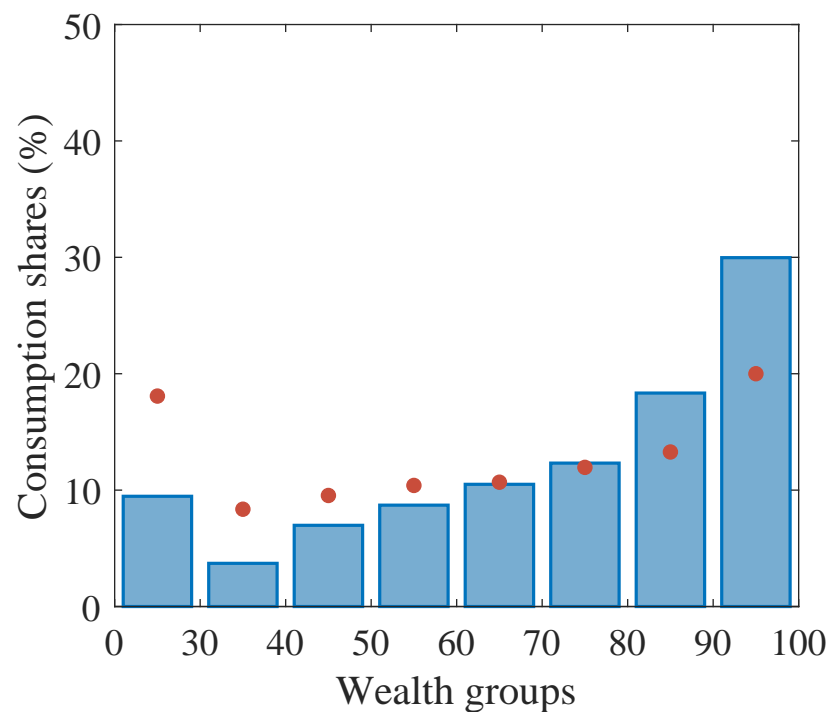


Income composition



- The model (right panel) generates realistic income shares but at the top.
- Labor income (blue), financial income (red), business income (purple).

Consumption shares



- Nondurable consumption and financial wealth from PSID in 2004.
- The model generates increasing shares but overstate consumption at the top.

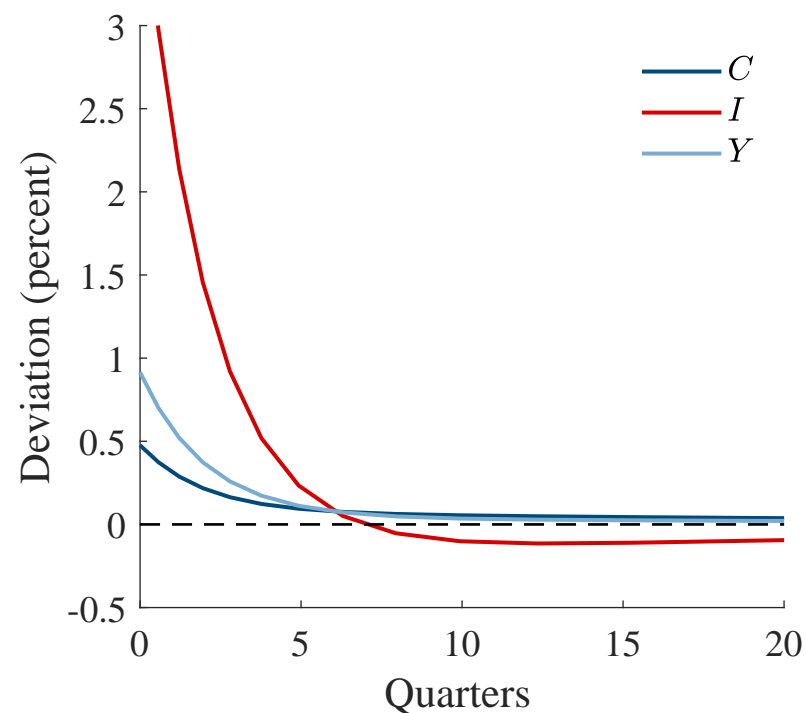
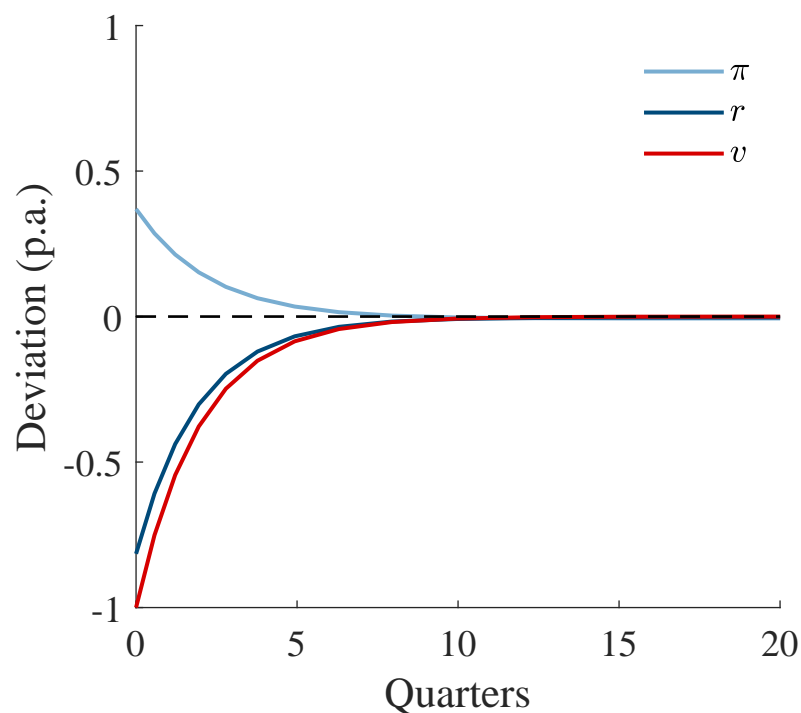
Marginal propensities to consume

- Average fraction of a transfer consumed in a quarter or in a year
 - Empirical benchmark of 15-25% over one quarter out of a \$500 transfer.
 - In the model MPC of 20% over one quarter out of a \$500 transfer.
 - Quantitative HANK models at lower bound of empirical estimates.¹
 - MPC at the top 10% of the wealth distribution is 3%.

¹Respectively Gornemann, Kuester, and Nakajima (2021), Hagedorn, Manovskii, and Mitman (2019), Kaplan, Moll, and Violante (2018) find 15% (Q), 33% (Y), 12% (Q), 40% (Y), and 16% (Q) 33% (Y). These studies typically set a quarterly empirical benchmark 15%-25% out of transfers between \$500 and \$1000 (Parker, Souleles, Johnson, and McClelland (2013), Broda and Parker (2014), Fagereng, Holm, and Natvik (2021)).

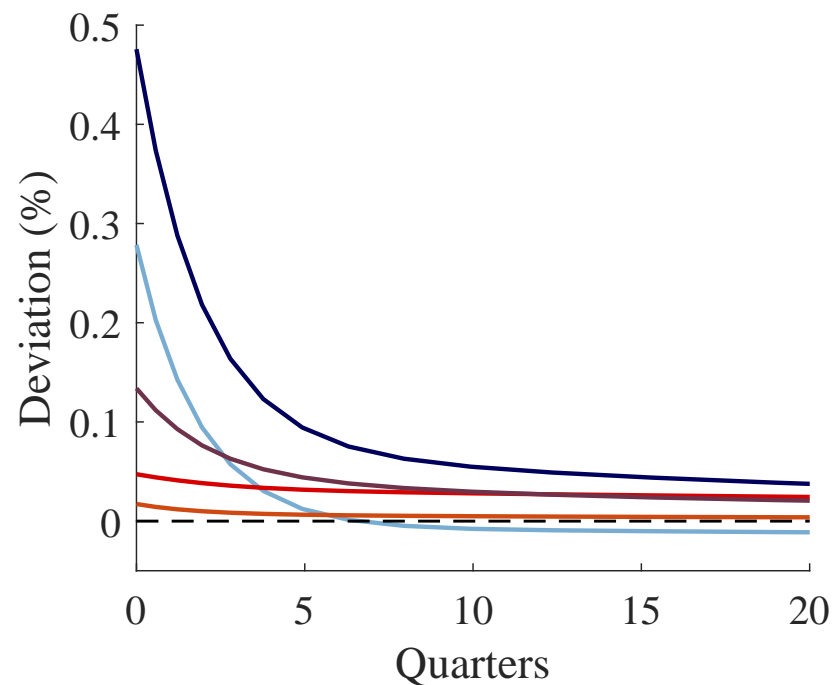
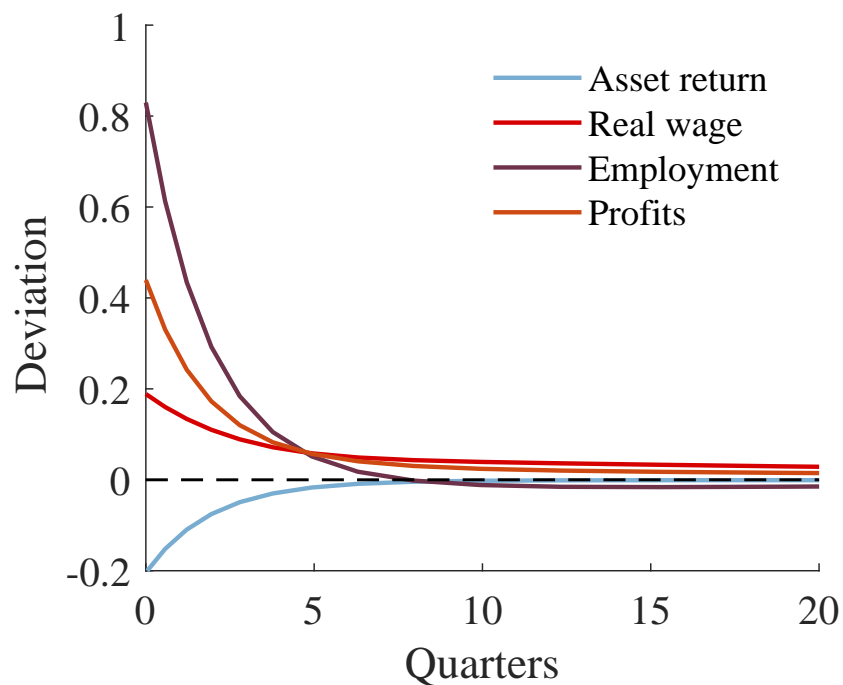
Quantitative Analysis

Macro responses to monetary policy



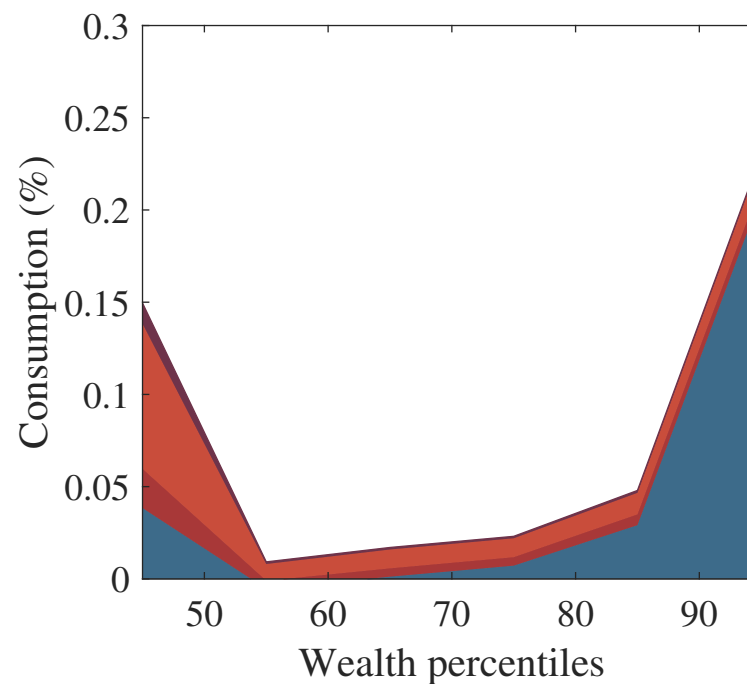
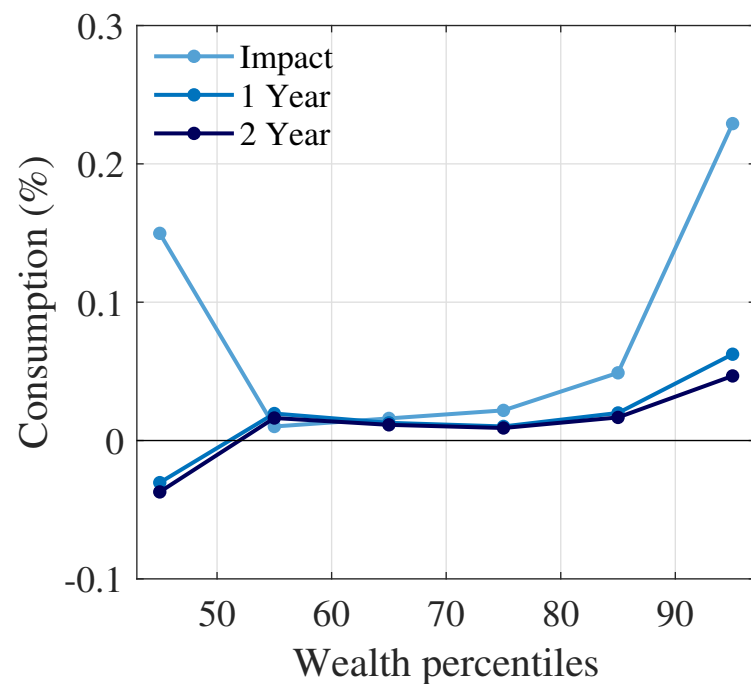
- IRFs to a 25 basis point or 1% annualized interest rate cut.
- Match volatility but overstate magnitudes.

Transmission mechanism



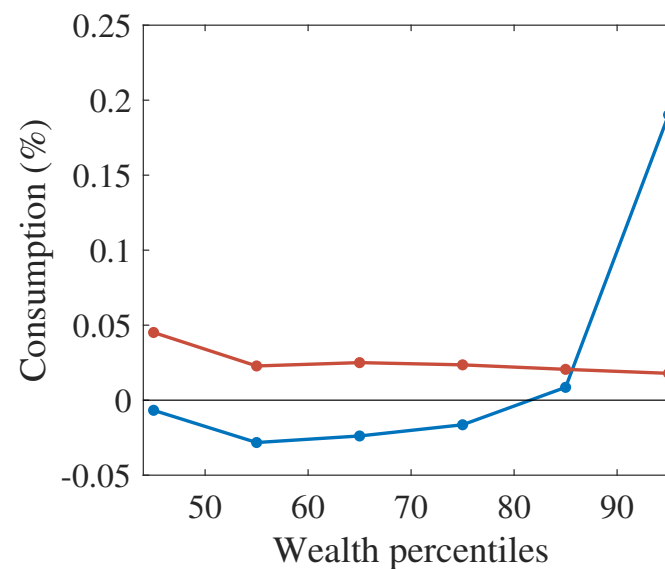
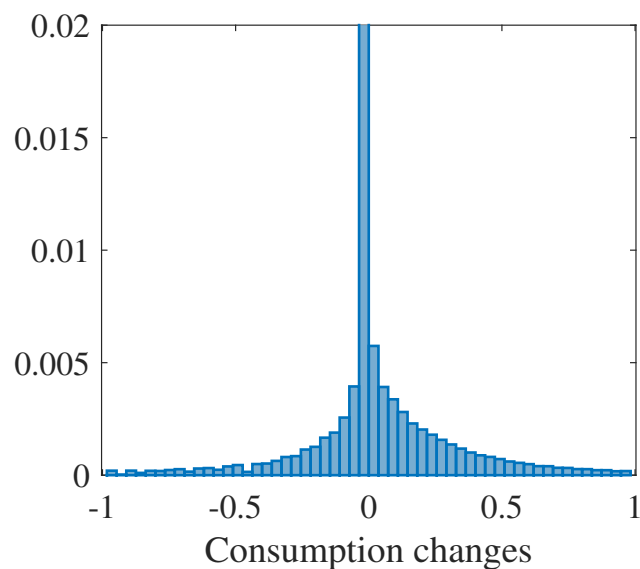
$$dC_t = \int_0^\infty \frac{\partial C_t}{\partial r_s} dr_s ds + \int_0^\infty \left(\frac{\partial C_t}{\partial w_s} dw_s + \frac{\partial C_t}{\partial n_s} dn_s + \frac{\partial C_t}{\partial d_s} dd_s \right) ds.$$

Consumption responses



- Households at the top have a strong impact on aggregate consumption.
- The response at the top is 0.16% without the top 1%.

Wealth dynamics



Consumption response	Total	No capital gains	Amplification
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Aggregate consumption	0.27	0.15	0.12
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Top 10% consumption	0.21	0.02	0.19
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Inflationary shocks

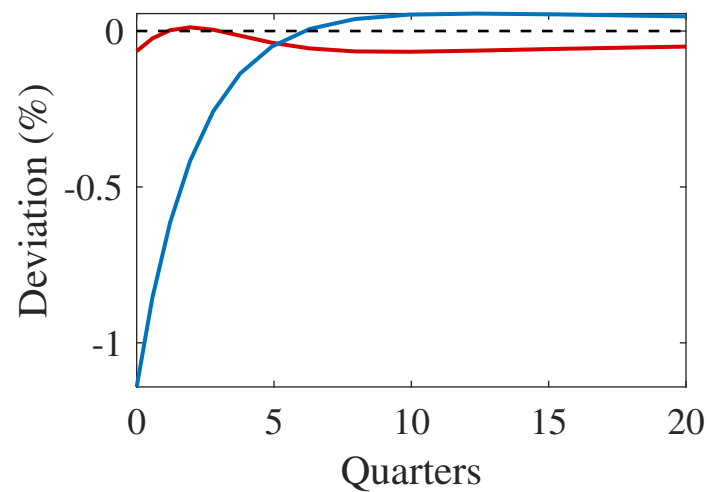
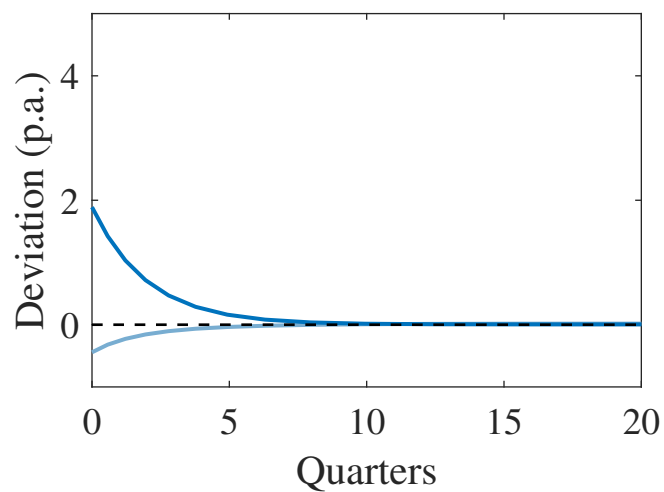
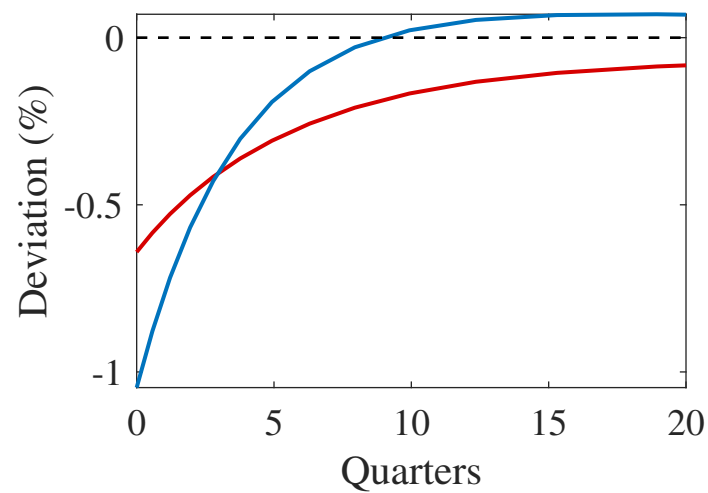
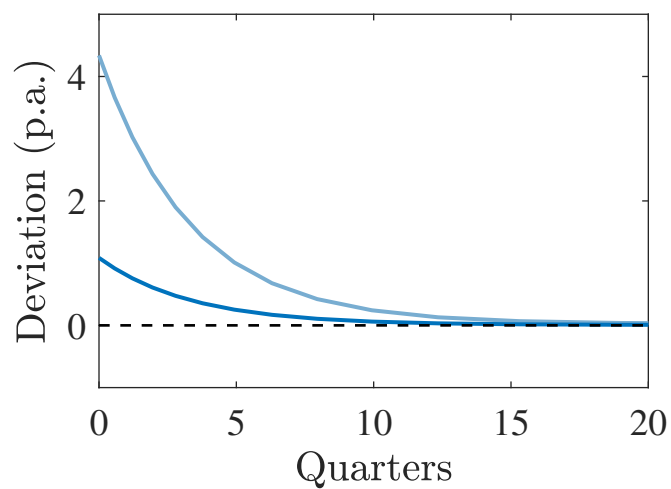
At least part of the return of inflation is attributed to supply shocks

- Supply chain bottlenecks and global trade crisis.
- Shortages of labor, materials, and energy.
- [Amiti, Heise, Karahan, and Şahin \(2022\)](#).

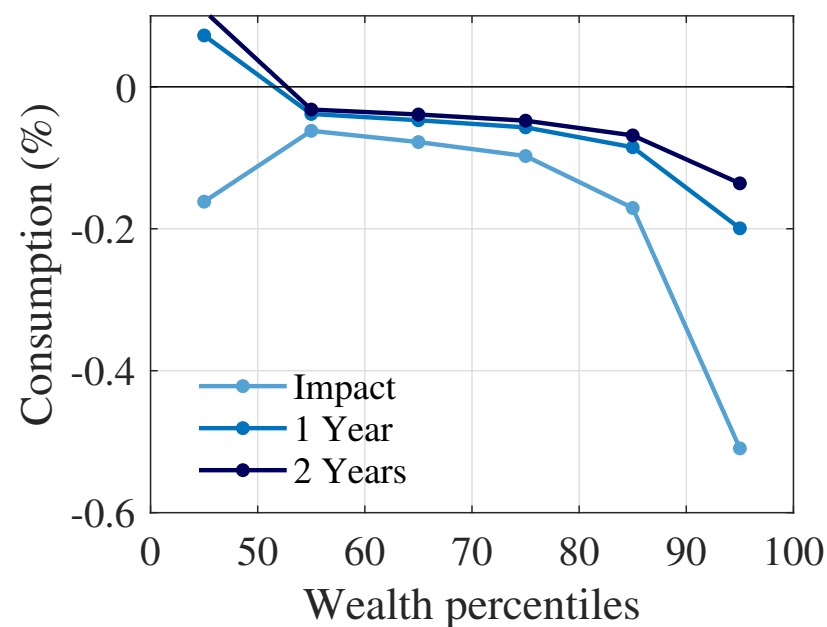
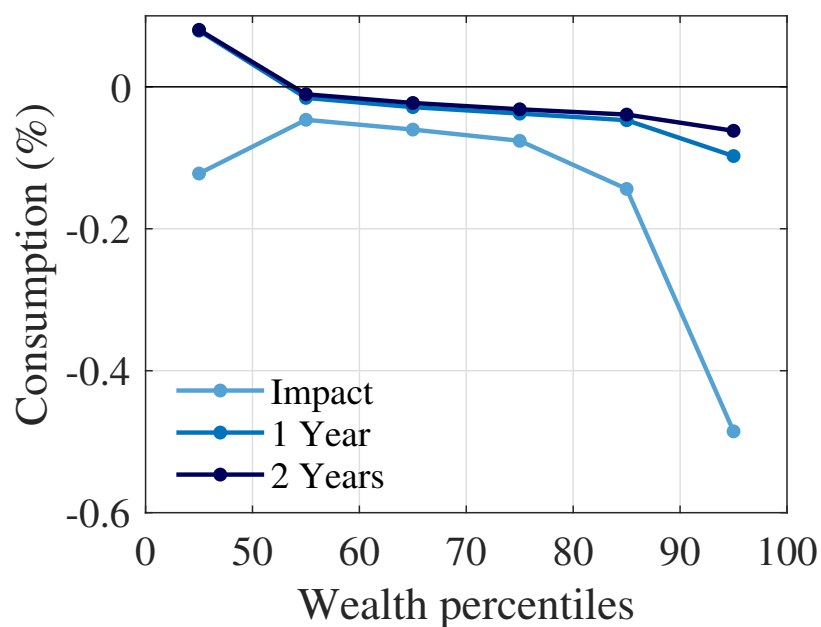
Two important consequences from the 2021 inflation I can study in the model:

- Reduction in real wages in the presence of rigid nominal incomes.
- Reduction in equity prices.

Inflationary shocks



Inflationary shocks



- Macroeconomic shocks with an impact on labor and financial markets.

Conclusion

Main messages:

- Wealth concentration at the top matters for aggregate dynamics:
- Wealthy households substantial impact on aggregate consumption response.
- Wealth dynamics shape transmission channels of monetary policy.
- More generally, these result hold for several macroeconomic shocks.

Thank you!

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