Unconventional Monetary Policy According to HANK

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This paper studies the implications of household heterogeneity for the effectiveness of quantitative easing (QE). We consider a heterogeneous agent New Keynesian (HANK) model with uninsurable household income risk. Financial intermediaries are subject to an endogenous leverage constraint that allows QE to matter. We find that macro aggregates react very similarly to a QE shock in the HANK model compared to a representative agent (RANK) version of the model. This finding is robust across different micro- and macro- distributions of wealth.