Welfare and Spending Effects of Consumption Stimulus Policies

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Abstract

Using a heterogeneous agent model calibrated to match spending dynamics over four years following an income shock (**?**), we assess the effectiveness of three fiscal stimulus policies implemented during recent recessions. Unemployment insurance (UI) extensions are the "bang for the buck" winner when the metric is effectiveness in boosting utility. Stimulus checks are second-best and have two advantages (over UI): they arrive faster, and are scalable. A temporary (two-year) cut in wage taxation is considerably less effective than the other policies and has negligible effects in the version of our model without a multiplier.

Keywords stimulus checks, unemployment insurance extensions, payroll tax cuts, HANK/heterogeneous agent models, marginal propensity to consume, spending multipliers

JEL codes E21, E62, H31

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