The Fisher Channel According to HANK: Unexpected Inflation and the Missing Recession*

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1st February, 2025
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Abstract

I show that the wealth redistribution from savers to borrowers, triggered by the recent inflationary episode, has been one of the reasons for the remarkable strength of the U.S. economy after the pandemic. Unexpected inflation reduced the real value of households' debts. Using a Heterogeneous Agent New Keynesian (HANK) model calibrated to match to match the empirical distribution of nominal exposures and their covariance with marginal propensities to consume (MPCs), I find that this wealth transfer increased aggregate consumption and contributed to inflation persistence. I support these findings with empirical evidence from billions of household-level transactions obtained from a U.S. fintech company, as well as county-level data on consumption and nominal debt. Finally, I demonstrate that the Fisher channel makes a monetary policy shock significantly more powerful in HANK models and revisit the importance of nominal rigidities in determining the effectiveness of monetary policy.

Keywords: Inflation, Redistribution, Household Heterogeneity, Net Nominal Positions, Consumption, HANK, Monetary Policy, Alternative Data, Fintech.

JEL Codes: D12, D14, D31, E21, E52, E58

*This draft: 1st February, 2025. First version: December 2023.

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I am deeply thankful to Morten Ravn and Adrien Auclert for guidance and support throughout this project. I am also extremely grateful to Oreste Tristani, Gianluca Violante, Samy Chaar, Stephen Hansen, Lukasz Rachel, Marcel Peruffo, Ralph Luetticke, Albert Marcet, seminar participants at the Paris School of Economics, Bank of England, Queen Mary University of London, EEA Congress in Rotterdam, Swiss Macro Workshop, the UCL Macro Group, the ECB Task Force on Heterogeneity in Macroeconomics and Lombard Odier Macro Team for helpful suggestions. Financial support from the Stone Centre at UCL is gratefully acknowledged.

1 Introduction

Over the course of 2022, as the Federal Reserve began raising rates at the fastest pace in four decades, a recession in the US started to become widely anticipated by many economists in the financial sector, in central banks, as well as in academia.[1] Contrary to these forecasts, not only was a recession averted, but the US also witnessed robust economic growth, with real personal consumption expenditures rising more than 3% both in 2023 and in 2024.

In this paper, I propose that the wealth transfer from nominal creditors to debtors induced by unexpected inflation in the US has increased aggregate demand post-pandemic. This concept goes back to Fisher (1933): unexpected inflation reduces the real value of nominal claims. If debtors possess a higher marginal propensity to consume (MPC) than creditors (Tobin (1982)), such a shift increases aggregate demand.

In Pallotti (2022), I showed that US households have accumulated substantial nominal assets and liabilities in the past four decades. As uncovered first by Doepke and Schneider (2006), these nominal assets and liabilities are concentrated within very different household groups. Wealthier, middle-aged, and elderly households hold most of nominal assets, like bonds and deposits, whereas nominal liabilities are typically held by the young middle-class, especially through fixed-rate mortgages.[2] The former group stand to lose from unexpected inflation, while the latter stand to gain.

The seminal work by Auclert (2019) integrated Tobin (1982)'s insight into an Heterogeneous Agents New Keynesian (HANK) model, in the context of the broader distributional impacts of monetary policy. In the following, I build a HANK model specifically designed to match key empirical evidence around the Fisher channel, namelz empirical distribution

[1]For example, a Bloomberg article predicted a 100% likelihood of a recession in 2023 (link). A survey of academics of the Initiative on Global Markets and showed that as of June 2022, 70% of respondents believed a recession would start before the end of 2023, with an additional 10% before the 2024Q2 Link. During the press conference following the FOMC meeting in December 2023, Fed Chair Jay Powell reflected on these predictions "So I think forecasters generally, if you go back a year, were very broadly forecasting a recession for this year (...) that includes Fed forecasters and really essentially all forecasters (...) ."

[2]In the US, unlike in other countries like the UK or Spain, more than 90% of outstanding mortgages in 2021 were fixed rate for the whole duration of the loan.

of net nominal positions (NNP) across households.[3] as well as the empirical covariance between the NNP and MPC - a sufficient statistic in Auclert (2019), which a baseline HANK model has trouble capturing.

I use my HANK model to study the propagation to the broader economy of the wealth redistribution generated by the "inflation shock" which started in 2021. According to the model, this redistribution of wealth from low to high MPC households raised aggregate consumption by around 0.5 percentage point in the first year following the shock, slowly decaying in the following years. Similarly, thorough a standard New Keynesian Phillips Curve, inflation also increased endogenously by around 0.3 percentage points in the first year, slowly decaying afterwards. In other words, in a HANK model that matches some key moments for the Fisher channel, unexpected inflation tends to "feed-on-itself" - despite monetary policy following a standard Taylor rule.

Empirical evidence supports the consumption implications of the model. I leverage big data from a fintech company in the US covering all the flows in and out of the bank accounts of its users. In particular, I construct a balanced panel of approximately 680,000 households who are always active throughout the inflationary period. I show these data are well representative of the US population - both in terms of tracking remarkably well official aggregate statistics on consumption and income, such as U.S. monthly retail sales from Census or U.S. Personal Income from the BEA, as well as some distributional aspects, such as the share of households with a mortgage according to the Survey of Consumer Finance. During this inflationary period, I find that mortgagors have grown their consumption by 1% more than the rest of the US population, with extremely tight confidence intervals, in line with the predictions of the model.

As complementary evidence using publicly available data, I perform a cross-county regression a la Mian et al. (2013). In particular, I leverage high-frequency data on spending at the county level from Chetty et al. (2020), as well as county-level data on nominal assets and liabilities from the New York Fed and the IRS Statistics of Income. Once again, I find that the counties with a more negative net nominal position, and especially those with more nominal debt, have been the ones where consumption expenditures grew relatively

[3]NNP is defined as the market value of nominal assets less the one of nominal liabilities.

more in the two years following the onset of the inflation shock - although results are not statistically significant.

I close the paper moving beyond the current inflationary episode and looking at the monetary policy implications of the Fisher channel in my HANK model. I uncover two main results: First, the presence of an active Fisher channel significantly amplifies the effectiveness of monetary policy. Specifically, it makes a persistent monetary policy shock almost 50% more powerful, due to the redistributive effects of unexpected inflation - which again moves wealth from wealthier households to indebted ones with higher marginal propensities to consume.

Second, the degree of nominal rigidities is less important for the effectiveness of monetary policy. In standard models, as well known, greater nominal rigidities enhance the impacts of monetary policy, through a higher impact of policy shocks on the real interest rate. The Fisher channel introduces an opposing effect: greater nominal rigidities also imply that inflation reacts less on impact. In turn, this leads to less redistribution between low MPC creditors and indebted households with an higher MPC, dampening the response of aggregate demand. In my model, the first effect on the real rate quantitatively dominates, therefore conventional wisdom still holds; greater nominal rigidity does enhance the effectiveness of monetary policy. However, the Fisher channel plays a quantitatively significant role in reducing the differences in monetary policy impacts across varying levels of nominal rigidity, effectively mitigating the expected differences. At the zero lower bound (ZLB), in response to a demand shock, both the real rate and the Fisher channel work in the same direction, and 'paradox of flexibility' by Eggertsson and Krugman (2012) is greatly enhanced.

My model builds on the standard HANK framework whereby households are subject to idiosyncratic risk and face a borrowing constraint. They save and borrow in one account which is made of long-term nominal claims (matching the average duration of nominal positions in the economy). I also follow an emerging convention in the HANK literature adopting a sticky-wages flexible prices specification, as in Auclert et al. (2024). This implies that the real wage simply follows productivity and allows me to abstract away from the effect of inflation on the distribution between labor and capital income (Lorenzoni and Werning (2023)), thus focusing only on the redistribution of nominal wealth. As I show in the paper, this modeling choice is also broadly consistent with the US experience, where nominal wages have been largely following the increase in the price level during the inflationary episode, unlike in other countries.[4]

Of course, inflation is an endogenous variable in the model. Many different structural shocks have been deemed responsible for the surge in the price level after the pandemic, both from the supply and demand side (e.g. Bernanke and Blanchard (2023), Dao et al. (2024), Giannone and Primiceri (2024)). Since my focus is on how the wealth redistribution caused by unexpected inflation affects aggregate demand, I do not model the exact combination of these primitive shocks. Instead, I directly simulate a shock to the unit of account that mirrors the unexpected surge in the price level over 2021 and 2022. This approach effectively shocks the wealth distribution by reducing the real value of nominal wealth holdings, redistributing resources from asset-rich households to indebted ones. By examining the impulse response functions of consumption and inflation to this *wealth redistribution* shock, I isolate and analyze the propagation of unexpected inflation to aggregate consumption through the Fisher channel - relative to a counterfactual where households hold only real assets and no wealth redistribution occurs. This method allows me to concentrate on the redistributive effects of inflation due to nominal assets and liabilities, without taking a stance on the specific structural shocks that generated the inflation surge.

Motivated by recent work by Schnorpfeil et al. (2023), which shows households may not be fully aware of the devaluation of their nominal debt implied by the Fisher channel, I also extend the benchmark version of my HANK model to include a form of cognitive discounting on the gains or losses on households' long-term nominal claims, such as fixed-rate mortgages. This behaviourial friction implies a smaller response of aggregate consumption on impact, but a more persistent tailwind to aggregate demand going forward.

[4]In some cases nominal wage growth has also exceeded the rise in the price level, especially for the lowest income brackets, as documented also by e.g. Autor et al. (2023).

Literature Review This paper builds on some of the very first Heterogeneous Agent New Keynesian (HANK) models that included nominal assets, such as Auclert (2019) and Luetticke (2021). Most of the subsequent HANK literature, e.g. Auclert et al. (2018), featured one-period real assets or is formulated in continuous time, where inflation plays no role, following Kaplan et al. (2018). Recent exceptions include Yang (2022), Kaplan et al. (2023), and Angeletos et al. (2024), which incorporate the redistributive effects of unexpected inflation among households. Relative to these papers, I provide a quantitative model of the Fisher channel disciplined by empirical evidence on NNP distribution and their covariance of MPC, apply it to study the implications for consumption of the current inflationary shock in the US, as well as test the predictions of the model for consumption in the data. For this latter purpose, I build on the literature that utilizes alternative data from fintech companies to study consumption patterns, as in e.g. Diamond and Moretti (2021) and Buda et al. (2023), demonstrating their usefulness to inform macro models and monetary policy.

Structure of the paper Section 2 describes the HANK model. Section 3 studies the propagation of the wealth distribution to aggregate consumption and inflation in the model. Section 4 evaluates empirically the strength of the Fisher channel in this particular inflation episode, using household level data from a fintech company and county-level data from Chetty et al. (2020). Section 5 analyzes a monetary policy shock in my model, highlighting the relevance of the Fisher channel for the effectiveness of monetary policy and re-evaluating the role of nominal rigidities. Section 6 concludes.

2 The Model

Households face idiosyncratic risk and are constrained in their borrowing capacity, deriving utility from consumption and leisure. They save and borrow into a long-term nominal assets modeled as in Woodford (2001): at price Q_t, the asset provides a stream of nominal payments $1, \delta, \delta^2, \ldots$. Setting δ to 0 (as in section A.4.1) recovers the usual case of a one-period (nominal) bond.

The household's problem is given by:

$$\max_{\{c_{it}\}_{t=0}^{\infty}} \mathbb{E}_0 \left[\sum_{t=0}^{\infty} \beta^t \left(u(c_{it}) - v(N_t) \right) \right]$$

$$\text{subject to} \quad P_t c_{it} + Q_t \Lambda_{it} = (1+\delta) Q_t \Lambda_{i,t-1} + z_{it}, \quad \forall t \tag{1}$$

$$Q_t \Lambda_t \geqslant \underline{a} P_t, \quad \forall t \tag{2}$$

where c_t is consumption, Λ_t is the amount of nominal claims and Q_t their price. Net labor income $z_{i,t}$ is given by:

$$z_{i,t} = \tau_t (W_t e_{i,t} N_t)^{1-\theta} \tag{3}$$

Where τ_t is the intercept of the retention function, W_t is the nominal wage, $e_{i,t}$ is household-level productivity and θ is the progressivity parameter. As shown by Heathcote et al. (2017), this rule can approximate particularly well the existing tax structure in the US. Following a convention in the HANK literature, hours worked N_t are chosen by unions and taken by the household as given, as described below.

The borrowing limit a in equation 2 is defined in real terms, so that unexpected inflation effectively relaxes the borrowing constraint. This as a natural starting point, as any more elaborate borrowing constrained defined e.g. in terms of debt-to-income ratio (as in e.g. Paz-Pardo (2021)), or collateral value (as in e.g. Iacoviello (2005)) will also relax when nominal incomes and/or house prices approximately follow the evolution of the price level, as broadly happened in the latest inflationary episode in the US (see section A.2 for a discussion). Moreover, in my calibration discussed below I will have virtually no households at the borrowing constraint in the steady state, which makes this particular modeling choice relatively unimportant for the implications of the model for aggregate consumption.

Given the expected path of nominal interest rate i_t, the price of the long-term bond Q_t is pinned down by a no-arbitrage condition:

$$Q_t = \frac{1 + \delta \mathbb{E}_t[Q_{t+1}]}{(1 + i_t)}$$

The ex-post real interest rate r_t faced by households is then simply given by the Fisher equation $1 + r_t = \frac{(1+i_{t-1})}{(1+\pi_t)} = \frac{(1+\delta Q_t)}{Q_{t-1}} \frac{1}{1+\pi_t}$. Finally, the utility function belongs to the constant elasticity of substitution (CES) family with intertemporal elasticity σ, i.e. $u(c) = \frac{c^{1-\frac{1}{\sigma}}}{1-\frac{1}{\sigma}}$, while the disutility function from work has a Frisch elasticity of labor supply ϕ, i.e. $v(N) = N^{1+\frac{1}{\phi}}$.

Supply On the supply side, I follow a convention in the HANK literature by adopting sticky wages and flexible prices. As emphasized by Auclert et al. (2023) and Broer et al. (2020), this combination of sticky wages and flexible prices is more in line with empirical evidence, as it does not feature countercyclical profits as well as large income effects on labor supply, which are both typical of flexible wages, sticky price versions of New Keynesian models. Specifically, there is a representative firm that produces output with a technology which is linear in labor N_t and productivity A_t

$$Y_t = A_t N_t$$

Solving the firm problem yields $\frac{W_t}{P_t} = A_t$, i.e. the real wage follows productivity, which is constant in the rest of the paper.[5] A constant real wage and no profits are conceptually appealing for my purpose as they allow the model to abstract away from any redistributional effect of inflation stemming from differential impacts on profits versus labor income (see, e.g. Lorenzoni and Werning (2023)). As discussed in section A.2, the real wage has indeed remained approximately constant in the US during the inflation shock, and it actually increased for the bottom half of the distribution (Autor et al. (2023)).

[5]The firm problem here is simply given by $\max_{N_t} P_t A_t N_t - W_t N_t$. Wage inflation and price inflation are thus the same at all times: as way to see it, $\frac{W_t(1+\pi_t^w)}{P_t(1+\pi_t)} = A_t(1 + g_{At})$, take logs and obtain $\pi_t^w - \pi_t = g_{At} = 0$.

Sticky wages Wages are set by unions subject to a quadratic costs a la Rotemberg (1982). Appendix A.1 describes the union problem following Auclert et al. (2018), which extends to the heterogeneous agent setting the standard microfoundation of sticky wages from Erceg et al. (2000), showing that it leads in equilibrium to the New Keynesian Wage Phillips Curve for wage inflation π_t^w:

$$\pi_t^w(1+\pi_t^w) = \kappa^w \left(\mu^w \frac{\gamma N_t^{1/\phi}}{(C_t^*)^{-\sigma}(1-\theta)(Y_t - T_t)/N_t} - 1 \right) + \beta \pi_{t+1}^w (1+\pi_{t+1}^w) \tag{4}$$

Where κ^w denotes its slope and is a function of the elasticity of substitution across different union tasks and the costs of adjusting wages, as documented in section A.1. μ^w is the mark-up applied by unions, $T_t = w_t N_t - \int z_{it} di$ are total taxes collected by the government, and C_t^* is a virtual consumption aggregator that captures the aggregate wealth effect on labor supply, defined as:

$$C_t^* = \left(\int \frac{e_{it}^{1-\theta}}{\int e_{it}^{1-\theta} di} c_{it}^{-\sigma} di \right)^{-\frac{1}{\sigma}}$$

Monetary Policy The monetary authority follows a standard Taylor rule for setting the nominal interest rate i_t:

$$i_t = r^* + \phi \mathbb{E}\pi_t + \epsilon_t \tag{5}$$

Where r^* is the steady state real interest rate, ϕ is the coefficient on inflation, and ϵ_t a monetary policy shock. [6]

Government The government issues long-term nominal debt B_t held by the household sector. In the benchmark version of the model, I assume that government adjust government spending G_t in response to shocks that move its debt level away from the steady state, with a coefficient γ_G, in order to satisfy the standard government budget constraint, $T_t + B_{t+1} = G_t + (1+r_t)B_t$:

[6]For simplicity and in keeping with most of the HANK literature, I assume inflation in the steady state to be 0.

$$G_t = G_{ss} - \gamma_G(B_t - B_{ss}) \tag{6}$$

With γ_G=1 in equation 6, we have balance budget, while for $r < \gamma_G < 1$ debt gradually converges back to its steady state.

Appendix A.4.2 treats the case of adjusting taxes rather than government spending as in 6 to satisfy the government budget constraint.

Equilibrium Given initial values for government debt B_{t-1}, nominal wage W_{t-1}, price level P_{t-1}, a distribution of households over skills e and assets Λ such that the economy starts from its steady state, a general equilibrium is a path for prices $\{P_t,\ W_t,\ \pi_t,\ \pi_t^w,\ r_t,\ i_t\}$ and aggregates $\{Y_t,\ N_t,\ C_t,\ B_t,\ G_t,\ T_t\}$ such that households optimize, unions optimize, the representative firm optimizes, monetary policy follows the Taylor rule 5, the government satisties its budget constraint and 6, and markets clear:

$$Y_t = \int c_{it} di + G_t \tag{7}$$

$$B_t = \int \Lambda_{it} di \tag{8}$$

2.1 Calibration

I calibrate the model at a yearly frequency, following conventions in the literature for most of the parameters. The main deviation consist in relaxing the borrowing constraint to account for mortgage debt. Table 1 reports all the values, while appendix A.4 explores alternative calibrations.

Households Both the intertemporal elasticity of substitution σ and the Frisch elasticity of labor supply θ have values well within the ranges of empirical estimates at 0.5 (see also Auclert et al. (2021)). The income process faced by households is also standard and follows an AR(1) process with persistence ρ_e of 0.91 and a standard deviation of the earnings σ_e at 0.92, as in e.g. Auclert and Rognlie (2018). I discretize this process using Rouwenhorst method on a grid of 11 points for e_{it}.

In order to match the empirical distribution of net nominal positions, I set the borrowing limit $\underline{a}$ to 1, which is the average yearly income in the economy. This is a deviation from the literature, as $\underline{a}$ is typically calibrated to zero or to the average quarterly income (see e.g. Kaplan et al. (2018)). The standard calibration is motivated by a focus of HANK models on consumer credit: here, my emphasis in on matching the empirical distribution of NNP, which include also mortgages. The real return is 5% per year as in Auclert and Rognlie (2018). While high, this allows me to match the distribution of the NNP better as well as hit perfectly the covariance between MPC and NNP, having virtually no households clustered at the borrowing limit. The discount factor β clears the asset market at 0.85. Finally, the bond decay parameter δ is set at 0.8 to match the average duration of nominal positions at the end of 2020, which was approximately 4.5 years (Pallotti (2022)).

Supply I set wage markup to 1.1 and the coefficient for wage rigidity to 0.05 following standard values in the literature based on Grigsby et al. (2021).

Policy Government spending represents 20% of GDP. The level of government debt in the steady state is also at 20% of GDP, as it acts as a counterpart to the aggregate Net Nominal Position of the household sector, which was 20% of GDP at the start of the inflation episode (as in Pallotti (2022)). As my focus here is on the redistribution within the household sector, I prefer to capture the distribution of NNP across households and as well as their aggregate position well, rather the actual NNP of the government (which is lower in the data, as foreigners also hold U.S. nominal debt).[7] The responsiveness of government spending to deviation of its debt level from the steady state γ_G is set conservatively at 0.1, implying a small but quite persistent response, with once more the idea of limiting as much as possible the influence of government actions on the implications of the model for consumption in response to unexpected inflation. The coefficient for tax

[7] As shown in Pallotti (2022), the rest of the world plays a significant role in financing the large NNP of the government in the US. As the model is a closed economy, I currently abstract from the wealth redistribution from the rest of the world towards the U.S. following unexpected inflation.

progressivity is 0.18, as in Heathcote et al. (2017). Finally, the coefficient on expected inflation in the Taylor rule is set to 1.25.

Solution method I use 500 points on a grid for assets, solving the household problem through the endogenous grid method. The model is solved using the Sequence Space Jacobian method from Auclert et al. (2021).

Table 1: Calibration parameters for the model.

Parameter	Description	Value	Parameter	Description	Value
σ	IES	0.5	κ_w	Slope of wage Phillips curve	0.05
υ	Frisch	0.5	μ_w	Wage markup	1.1
$\underline{a}$	Borrowing constraint	-1	ϕ	Taylor Rule coefficient	1.25
θ	Tax progressivity	0.18	B	Public Debt to GDP	0.2
ρ_e	Autocorrelation of earnings	0.91	G	Government spending	0.2
σ_e	Std of log earnings	0.92	γ_G	G response	0.1
β	Discount Factor	0.85	$r*$	Eq. real rate	0.05
δ	Bond decay	0.80	π_{ss}	Steady-state inflation	0

2.1.1 Results

Table 2 reports percentiles of the distribution of the net nominal position over labor market income in the model against the ones from the 2019 Survey of Consumer Finances (SCF), following the methodology in Pallotti (2022) in order to compute both the direct and indirect nominal positions in the SCF.[8] Overall, the matching is quite accurate. Both distributions switch from negative to positive NNP between the 50th and the 75th percentiles, and have similar value in the left tail as well as to some extent in the right tail, despite the well known difficulty for the one-account HANK model to capture the very wealthy (e.g. Castaneda et al. (2003)).This relatively good performance in the right tail of the NNP distribution of my model is also driven by the fact that the NNP distribution is not as skewed as the one for overall wealth, which includes also housing, stocks and other real assets.

[8] As in Doepke and Schneider (2006), besides nominal positions that are directly held in household portfolios or that sits in investments intermediaries such as mutual funds, I also take into account indirect nominal positions arising from the households' ownership of equity in firms that have nominal assets or liabilities on their balance sheets.

Table 2: Net nominal positions in the data and in the model

NNP Quantiles			Consumption CDF
Pct	Data	Model	Model
0.01	-6.8	-7.2	0.0%
0.05	-3.6	-4.8	0.8%
0.1	-2.5	-3.5	2.3%
0.25	-1.1	-2.3	8.7%
0.5	-0.1	-0.9	25.3%
0.75	0.4	0.5	51.3%
0.9	2.2	2.0	74.3%
0.95	4.1	2.9	84.7%
0.99	10	4.6	95.7%

Net nominal position over household annual labor income in the 2019 SCF vs. in the model. Cumulative distribution function of consumption in the model.

Most importantly, the model can perfectly match the empirical covariance between NNP and MPC at -0.072, which is the most precise estimate among the ones in Auclert (2019). As shown in Auclert (2019), within a very general class of models, this covariance is a sufficient statistics to predict the impact on aggregate consumption of a wealth redistribution stemming from a one-off shock to the price level.

Matching well the distribution of NNP as well as the covariance between NNP and MPC comes at the cost of having virtually no people at the borrowing constraint, and thus a lower average MPC in the model, which is 21% per year - in the low range of the empirical estimates. The intertemporal Keynesian cross Auclert et al. (2018) is therefore less powerful in this model relative to a baseline HANK, and the propagation to the broader economy of any initial impulse to aggregate demand can be interpreted as a lower bound.

3 Wealth Redistribution and its Propagation

I use the model to examine how the wealth redistribution resulting from an inflation shock propagates to aggregate variables, specifically consumption and inflation. I measure the latest inflation shock by comparing the expected path for the price level from the Survey of Professional Forecasters at the end of 2020 with the actual evolution of the price level - which was around 10% higher by the end of 2022.[9]

This shock to the price level has been arguably due to several factors: supply chain disruptions, generous transfers from the government to households, or monetary policy remaining accommodative even after inflation started to exceed 2% year-on-year in April 2021, among others (e.g. Giannone and Primiceri (2024), Bernanke and Blanchard (2023), Dao et al. (2024). Since my interest lies solely in how the redistributive effects implied by this shock (due to the presence of nominal assets and liabilities) propagated to the rest of the economy, it is not strictly necessary to specify within the model the exact combination of underlying structural shocks that caused this spike in the price level.

Instead, in the model, I directly shock the wealth distribution by simulating a change in the unit of account equal in magnitude to the surprise inflation observed over 2021 and 2022. Through the lens of the model, the only effect comes from Λ becoming less valuable in terms of real consumption c, redistributing resources away from asset-rich households and towards indebted ones. Another equivalent way of modeling the change in the unit of account is a one-off MIT shock to a wealth tax, θ_π, on wealth holdings Λ, which results in negative outlays for creditors and a positive subsidy to debtors and to the government (which has a negative net nominal position).

A possible interpretation the impulse response function (IRFs) of consumption and inflation to this wealth redistribution is to compare a *real-asset* economy, hit by the same combination of primitive structural shocks that moved inflation in the first place, to a *nominal-asset* economy where these primitive shocks also had redistributive effects due to the unexpected inflation they generated. These redistributive effects transmitted to aggregate consumption and inflation according to the IRFs shown below.

[9] Figure 12 shows the actual and expected paths for the price level as of December 2020.

Of course, it is entirely feasible within the model to generate inflation (and thus wealth redistribution) through primitive structural shocks. We will look at the example of monetary policy shock thorugh the lens of the model in Section 5.

3.1 Impact on aggregates

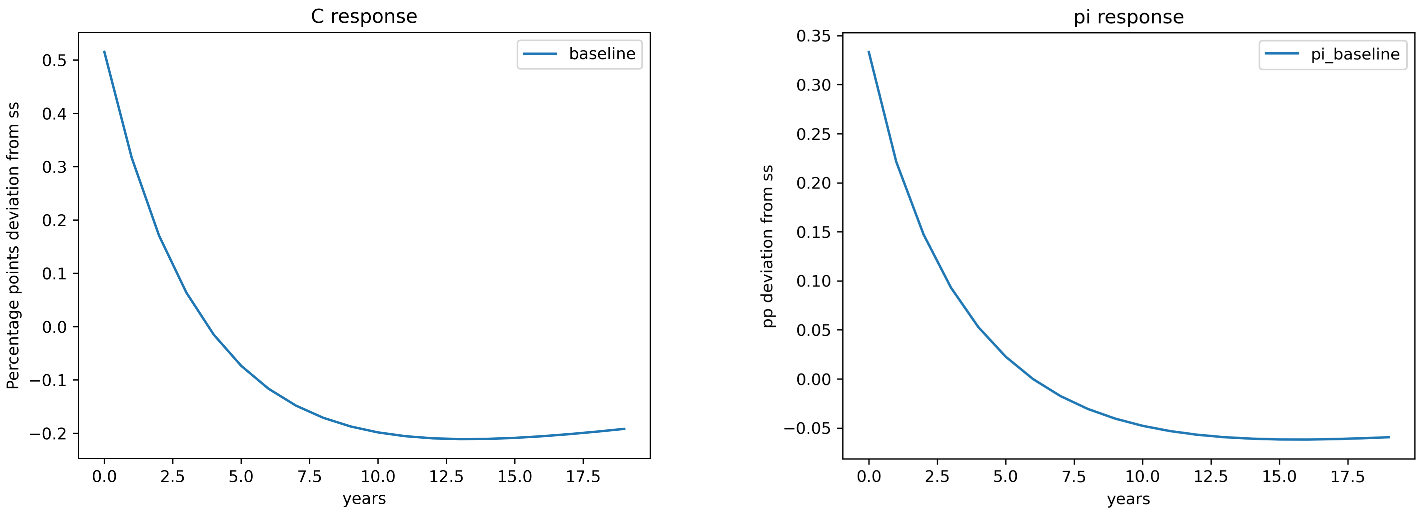


Figure 1: Impulse response functions (IRFs) of consumption and inflation to the wealth redistribution generated by the 2021-2022 inflation shock in the United States according to my HANK model with nominal assets, matching the empirical NNP distribution and the covariance between NNP and MPC in the data.

The right panel of Figure 1 depicts the response of aggregate consumption to the inflation shock described above. Consumption rises by 0.5% in the first year and then begins to slowly decline back toward the steady state, ultimately undershooting it. Figure 2 sheds light on the various channels within the model behind the aggregate increase in consumption. The direct impact of the shock (blue dotted line) is initially expansionary, as it redistributes resources from households with low MPC to those with high MPC. After a few years, the direct response of consumption to the shock turns negative. This is due to the fact that while households close to the borrowing constraint have a higher MPC and initially raise their consumption substantially, wealthier households behave more in line with the Permanent Income Hypothesis (Friedman, 1957), cutting their consumption permanently by an amount close to the annuity value of the negative wealth shock. Over time, the consumption behavior of the rich dominates the initial spending spree of indebted households, also because the household sector as a whole has a positive net nominal position.

The initial positive direct effect raises output in the economy (the blue line in the left panel of figure 2), which further boosts consumption through the intertemporal Keynesian cross (Auclert et al., 2018), as shown by the dotted orange line in the right panel of figure 2. Output increases initially also thanks to a small but persistent rise in government spending as in equation 6 - due to the devaluation of the government nominal debt -, as shown by the green line in the left panel of Figure 2.

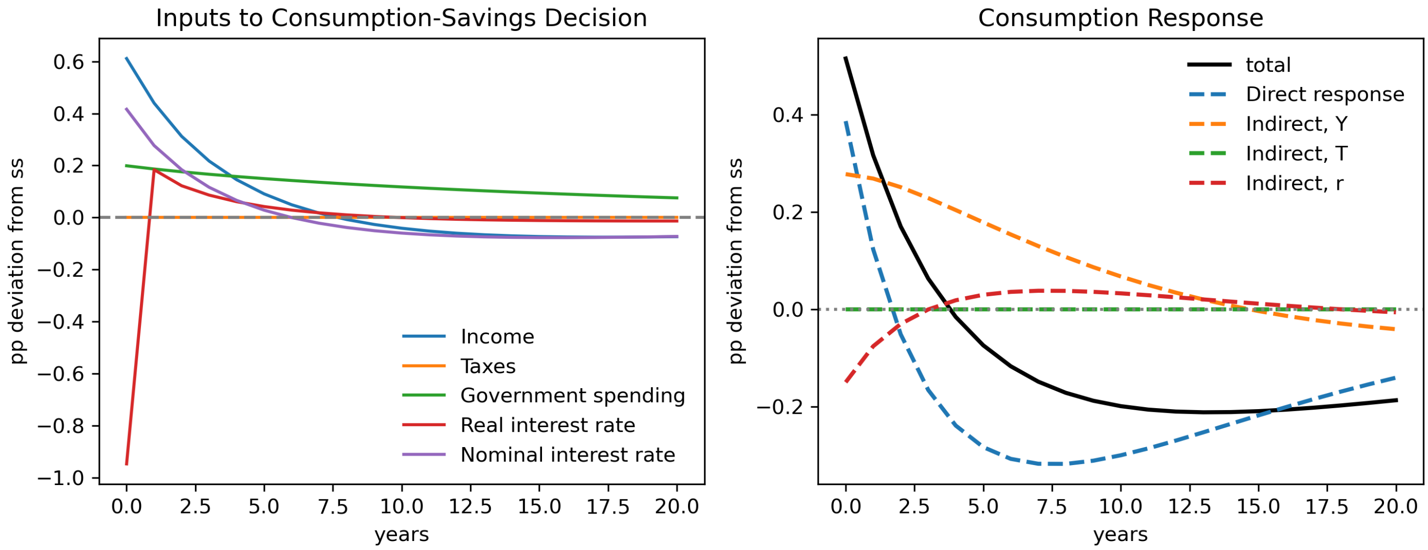


Figure 2: Decomposition of the net effect on consumption reported in the left panel of figure 1 into the direct impact of the redistributive shock, the feedback loop from income to consumption through the intertemporal Keynesian cross, as well as the reactions of government spending and interest rates in the model. Left panel reports the reaction of inputs to the household problem, right panel reports their individual effects on aggregate consumption.

The increase in output from both consumption and government spending pushes up inflation according to the New Keynesian Wage Phillips Curve (Equation 4). The IRF of inflation is reported in the right panel of Figure 1: it rises on impact and then slowly decays, with the price level being 0.3 percentage points higher in the first year after the shock compared to a counterfactual with no wealth redistribution induced by inflation. In this sense, an inflationary shock in a HANK model featuring nominal wealth redistribution tends to ”feed on itself”. This rise in inflation due to the wealth redistribution triggers a monetary policy response, raising nominal interest rates according to the Taylor rule (Equation 5) by around 40 basis points, as reported in the left panel of Figure 2. The ex-post real interest rate is negative in the first period, both because of the unexpected inflation and because the price of the long-term bond unexpectedly falls, due to discounting the higher future path of nominal interest rates.

As the negative direct effect on consumption after a few years (dashed blue line) begins to dominate the positive general equilibrium effect from the intertemporal Keynesian cross (dashed orange line), consumption and inflation undershoot their steady-state values. Consequently, monetary policy starts to cut interest rates (marginally) and consumption converges back to its equilibrium level from below. The model suggests that while the effects of wealth redistribution on aggregate quantities are very small after a few years, they are very long-lasting, as it takes a long time for the wealth distribution to return back to its ergodic state.

3.1.1 Behavioural frictions

In the simulation discussed above, I assumed that households perfectly understand that unexpected inflation implies a reduction in the present value of their nominal assets or liabilities. However, using data for Germany, Schnorpfeil et al. (2023) show that households are often unaware of the reduction in the real value of their nominal debt induced by the Fisher effect. This is particularly relevant for long-term nominal positions, like Treasuries or mortgages, where the reduction in the real value of cash flows from these instruments happens over long time horizons, and it thus may not be immediately apparent to some households looking only at their cash flows.

To capture this potential friction in the model, I shift from simulating a one-off wealth redistribution to simulating the same wealth redistribution in present value, but now happening over time. In particular, I introduce an inflation tax $\theta_{\pi,t}$ on nominal assets and liabilities that phases off completely after d years.

$$\theta_{\pi,t} = \begin{cases} \frac{\gamma_\pi}{d} & \text{for } t < d \\ 0 & \text{for } t \geqslant d \end{cases}$$

Here, γ_π represents the overall inflation shock described above, and d is the average duration of net nominal positions as of the end of 2020 (five years, as in Pallotti (2022)). Households with negative net nominal positions Λ receive a subsidy equal to $\theta_{\pi,t}\Lambda$, while households with positive net nominal positions have to pay the equivalent tax. This simulates a reduction in the negative cash flow implied by a mortgage contract, or in the positive cash flow implied by a long-term bond. This tax lasts only d periods, and households form their expectations about the future values of this tax under cognitive discounting, following Gabaix (2020):

$$E_t^{BR}[\theta_{\pi,t+1}] = \theta_{\pi,ss} + \tilde{m}E_t[\theta_{\pi,t+1}] \tag{9}$$

Here, $\theta_{\pi,ss}$ is the steady-state value of this tax, which is zero. The parameter $\tilde{m}$ governs the degree of cognitive discounting regarding the future values of this tax, or in other words the myopia of these households with respect to the future reduction in the value of their nominal assets and liabilities. For $\tilde{m} = 0$, households are fully myopic and every reduction in the real value of their nominal assets or liabilities comes to them as a surprise each period t . For $\tilde{m} \to 1$, the model gets closer to the case of rational expectations in the previous section, where households perfectly anticipate the reduction in the present value of all their future nominal cash flows.[10]

Figure 3 reports the impulse response functions (IRFs) for consumption and inflation in the model for varying degrees of $\tilde{m}$. For $\tilde{m}$ close to one, the effect is similar to the rational expectations case. As we decrease $\tilde{m}$ towards zero, the response of consumption becomes less pronounced on impact but more persistent over time. This occurs because indebted households adjust their consumption positively every time they realize their liabilities

[10]There is a subtlety that makes the exercise in the previous section not perfectly comparable to the current one with $\tilde{m} = 1$, which is that when $\tilde{m} = 1$ households perfectly understand that their future nominal assets, not just their current ones, will be devalued by the tax $\theta_{\pi,t}$, which ceteris paribus encourages them to save less and consume more.

have actually a lower value than expected, without (or only partially) anticipating that this is going to happen again over the next periods. The response of inflation for lower $\tilde{m}$ is more persistent, though broadly similar on impact, since the unions are fully rational and forecast the cumulative deviation of consumption from its steady state when setting wages.

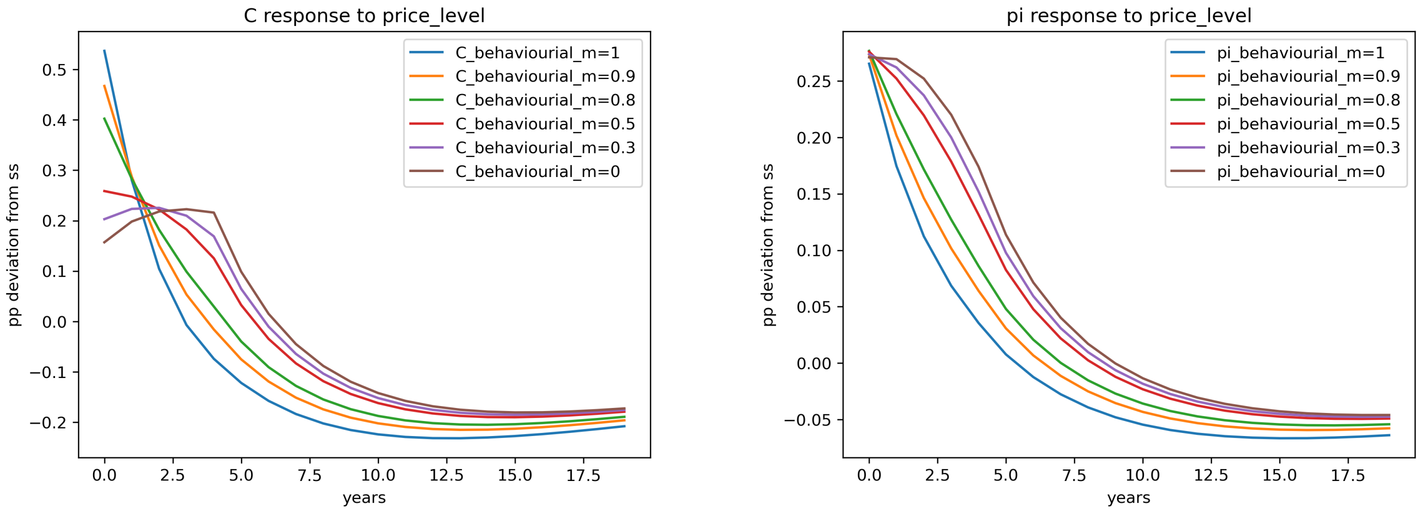


Figure 3: Impulse response functions (IRFs) of consumption and inflation to the wealth redistribution generated by the inflation shock when households exhibit cognitive discounting with respect to the reduction in the real value of their long-term assets and liabilities. A lower $\tilde{m}$ implies more myopia, as in Equation 9.

4 Empirical Evidence

A key prediction of the model is that households with nominal debt should increase their consumption, relative to a counterfactual where they had no nominal debt, and conversely (to a lesser extent) for households with nominal assets. I test this empirically using data from a fintech company in the US where I can identify households who have been paying down a mortgage througout the inflationary shock. I then move to publicly available data, leveraging variation at the county level.

4.1 Fintech data

The dataset covers almost 100 billion transactions for more than 45 million unique users from January 2010 to October 2023.[11] The fintech company supplying the data offers a financial platform to U.S. banks, allowing the banks' customers to get a comprehensive view of their financial situation.

The dataset contains all inflows (e.g., salaries, transfers, refunds) and outflows (e.g., direct debits, credit card spending, cash withdrawals, mortgage payments) for all the bank accounts that each user registers for the services provided by the fintech. Although it is not possible to exclude the presence of additional accounts outside this dataset, the platform itself is designed to provide users with a full picture of their finances, thereby incentivizing them to add all relevant accounts. Consequently, I treat each user as representing a household unit for most of the analysis.

Sample selection To abstract from potential biases due to households entering or exiting the sample at different times, I construct a panel of users who remain continuously active. My benchmark sample consists of households that performed at least 50 transactions every month throughout the period of interest. Although this selection may be restrictive, it allows me to match the fraction of households paying down a mortgage (as discussed below) and still yields a final panel of almost 700,000 users from January 2019 to October 2023.[12] In Section B.3, I explore how relaxing this monthly transaction threshold (to 25, 10, or even 1 transaction per month) affects the results. Qualitatively, the findings remain robust. The quantitative magnitudes tend to be larger when the threshold is lower, while at the same time deviating more from the actual fraction of mortgagors in the population.

Lastly, I follow the fintech's algorithm to remove outliers and duplicates, as well as restrict the sample to transactions in U.S. dollars.

[11] The exact numbers for the whole sample are 97,869,791,714 transactions and 45,302,620 unique account holders.

[12] The exact number is 687,382.

Tracking US Aggregates The data align closely with official U.S. consumption statistics. Figure 4 shows a comparison between U.S. Census monthly retail sales data with credit and debit card expenditures extracted from the fintech data. There is reasonable alignment also with Personal Consumption Expenditures (PCE) from the Bureau of Economic Analysis (BEA), even though some items like owners' equivalent rent or government-financed purchases (e.g., Medicaid) are absent from the fintech data by design, as they do not involve monetary transactions (see figure 16 and figure 17 in the appendix).

Figure 5 similarly illustrates that total inflows in the fintech data closely track the evolution of personal income from the BEA. The primary discrepancies appear driven by seasonal adjustment in the official series and the unadjusted nature of the fintech flows. Overall, these comparisons underscore that the fintech data reliably capture the broad trends in U.S. consumption and income.

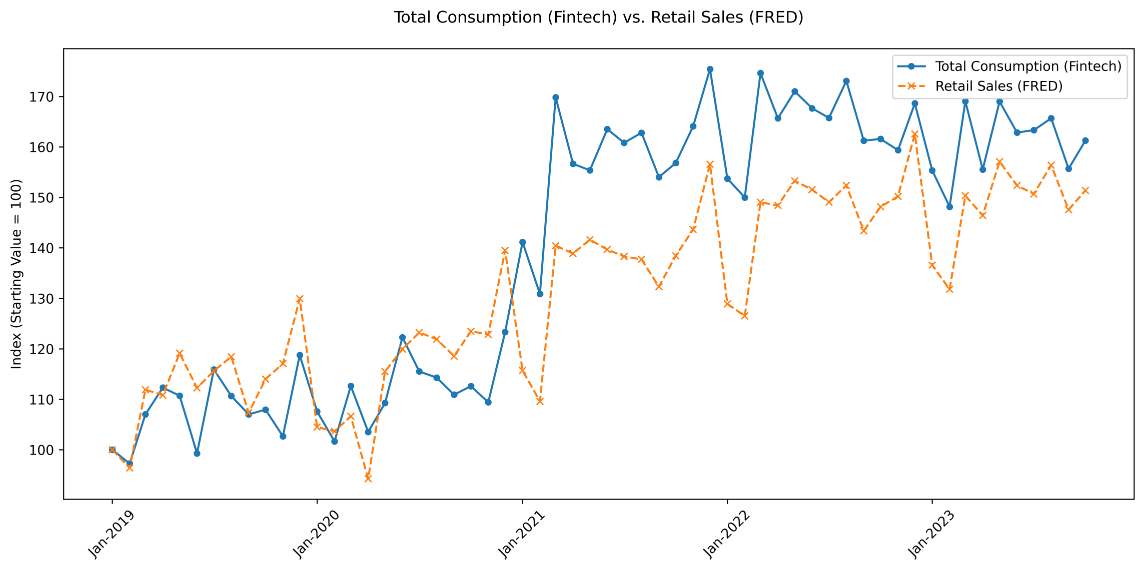


Figure 4: Comparison of consumption outflows in the fintech data with U.S. Retail Sales, from January 2019 to October 2023. The fintech data include users with at least one transaction per month, resulting in a panel of 4.2 million users over 2019â2023. Both series are indexed to 100 in January 2019. The fintech consumption categories included here based on the platform internal classification are: 'Restaurants', 'Entertainment/Recreation', 'Groceries', 'Electronics/General Merchandise', 'Automotive/Fuel', 'Utilities', 'Cable/Satellite/Telecom', 'Education', 'Rent', 'Travel', 'Healthcare/Medical', 'Postage/Shipping', 'Gifts', 'Pets/Pet Care'.

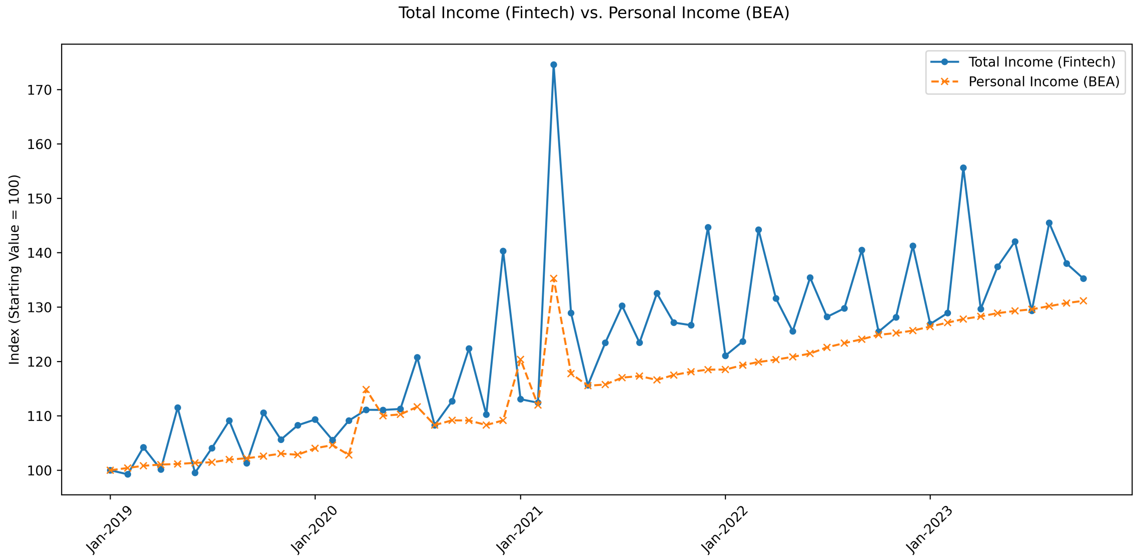


Figure 5: Comparison of total income inflows in the fintech data (not seasonally adjusted) with official U.S. Personal Income (BEA) (seasonally adjusted) from January 2019 to October 2023. The fintech data include users with at least one transaction per month, comprising 4.2 million users. Both series are indexed to 100 in January 2019.

Mortgagors A key advantage of these data is that one can identify households who are paying down a mortgage. Specifically, I use the fintech' internal algorithm, which classifies transactions based on their descriptions and counterparties, to isolate mortgage-related payments. Among those flagged as mortgage payments, I only retain those exceeding $200 to limit the inclusion of unrelated or incidental charges. Figure 6 shows that the fraction of households marked as mortgagors in my core sample almost perfectly matches the fractions from the 2019 and 2022 Survey of Consumer Finance (SCF).

4.1.1 Empirical evidence

To estimate how inflation affects household spending growth, I begin by regressing the growth in consumption of household i on an indicator M_i for those who continuously pay a mortgage over the sample period,[13] as well as on other controls X_i:

$$\Delta \log(C)_i = \alpha \;+\; \beta_1 M_i \;+\; \boldsymbol{\beta}_2 \mathbf{X}_i \;+\; \epsilon_i. \tag{10}$$

[13] Since I cannot observe the outstanding principal balance, restricting the sample to households that consistently make mortgage payments during the inflationary episode helps exclude borrowers who might have fully repaid their mortgage and thus carried little nominal debt into this period.

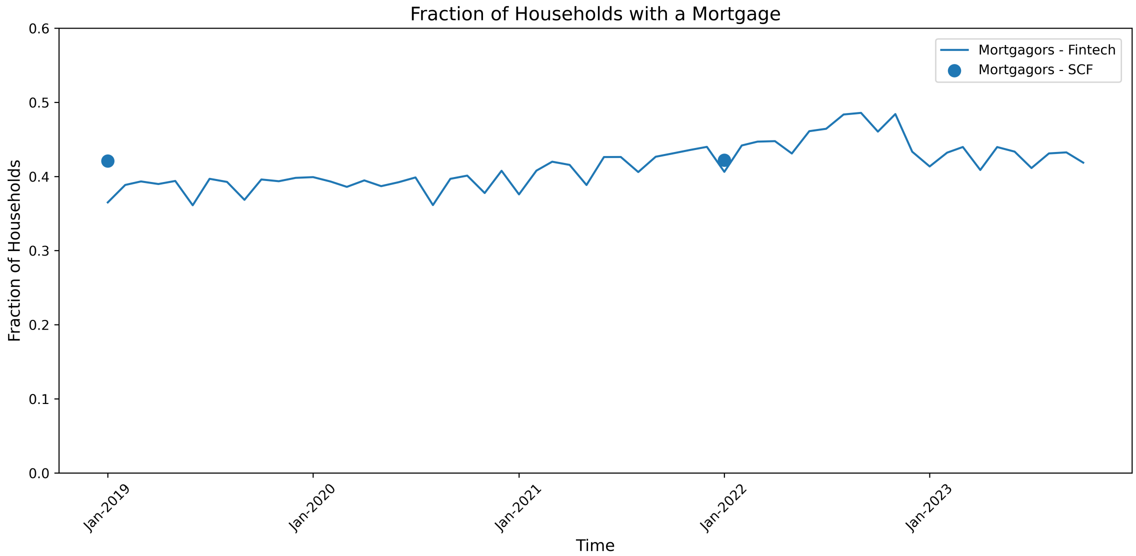


Figure 6: Fraction of households paying down a mortgage each month in the fintech data (January 2019–October 2023) versus the fraction of households carrying mortgage debt in the 2019 and 2022 SCF. The fintech sample includes users with at least 50 transactions per month, yielding about 700,000 households.

Given the daily granularity of the fintech data, I measure consumption growth as $\Delta\log(C)_i = \log\left(\overline{C_{i,t}}\right) - \log\left(\overline{C_{i,s}}\right)$, where $\overline{C_{i,t}}$ is average household i consumption over period t. The vector of controls $\mathbf{X}_i$ includes state fixed effects (based on household residence), household-level income growth, and indicator variables for seven income classes defined by the fintech algorithm.

Figure 21 (in Section B.3) shows that inflation began exceeding 2% in March 2021, surpassing 5% by June 2021. Around this time, the rise in inflation also gained substantial media coverage, as evidenced by Google trends data (Figure 22). For the benchmark analysis, I define the starting point t as June–July 2021 and the end point s as September–October 2023 (the latest period available).[14]

Results Table 3 shows estimates from regression (10) increasing the number of controls. The first column uses all controls: as we move to the right side of the table, these controls are progressively excluded. In my preferred specification, over the inflationary period, the consumption growth of households with a mortgage has been on average 1 percentage

[14]This timing choice also avoids conflating the effects of inflation with the direct impact of the final round of COVID-related stimulus checks, which were distributed in March 2021. However, results are robust to shifting the start or end dates of the inflationary period, as reported in section B.3.

point higher than those without. The data however also allow for investigating heterogeneous effects among mortgagors, for example by income. In particular, I categorize households into seven income classes using the platform's internal algorithm and interact the mortgage indicator M_i with each income class k:

$$\Delta \log(C)_i = \alpha \; + \; \sum_{k=1}^{7} \gamma_k \big[\; M_i \times \mathbb{I}\{\text{income class} = k\} \big] \; + \; \boldsymbol{\beta}_2 \mathbf{X}_i \; + \; \epsilon_i. \tag{11}$$

Table 4 reports the resulting estimates of γ_k for each income class. Looking at point estimates, mortgagors in the lowest income bracket show a large negative differential, whereas those in the upper income classes exhibited much larger consumption growth when they had a mortgage, relative to households without.

Table 3: Mortgagors and Spending Growth

	(1)	(2)	(3)	(4)
M	0.0125 [0.011, 0.014]	0.0119 [0.011, 0.013]	0.0048 [0.003, 0.006]	0.0046 [0.003, 0.006]
Income FE.	✓	✓		
State FE	✓		✓	
N	680,204	680,204	680,204	680,204
R^2	0.013	0.012	0.001	0

Results of regression 10 of consumption growth from June-July 2021 to September-October 2023. Brackets contain 95% confidence intervals. The fintech sample includes users with at least 50 transactions per month.

Robustness Section B.3 in the appendix relaxes the sample criteria, reducing the transaction threshold to 25, 10, or even 1 transaction per month. These less restrictive filters expand the sample up to 4.2 million households (for the 1-transaction threshold), strengthening statistical precision. The magnitude of the point estimates also tends to increase, suggesting that mortgagors in a broader sample (with less frequent transactors) have even higher spending growth - up to 5% more than non-mortgagors in some specifications. However, this broader sample no longer matches the population fraction of mortgagors, which

Table 4: Mortgagors and Spending Growth by Income Class

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
γ_k	-0.29	0.29	0.30	0.31	0.31	0.31	0.31
	[-0.61, 0.02]	[-0.036, 0.594]	[-0.010 , 0.617]	[-0.003, 0.624]	[-0.004, 0.622]	[-0.004, 0.622]	[-0.011, 0.615]
Income FE	✓	✓	✓	✓	✓	✓	✓
State FE	✓	✓	✓	✓	✓	✓	✓
N	680,204	680,204	680,204	680,204	680,204	680,204	680,204
R^2	0.013	0.013	0.013	0.013	0.013	0.013	0.013

Results of regression 11 of consumption growth from June-July 2021 to September-October 2023, where a mortgage indicator M_i is interacted with seven fintech-defined income classes ($k = 1, \ldots, 7$). Brackets contain 95% confidence intervals. The fintech sample includes users with at least 50 transactions per month.

declines up to about 20%.

Similar considerations hold when adjusting the sample start and end dates, with the overall patterns and estimated coefficients remaining broadly stable.

4.2 Cross-county evidence

Moving to cross-county evidence, I use real-time credit and debit card expenditures at the county level provided by Affinity Solutions and made publicly available by Chetty et al. (2020). Figure 19 in the appendix presents the time series for the US and compares it with aggregate expenditures from BEA data, showing reasonable alignment. Figure 18 contains an example of the data for the county of Dutchess, NY.

I complement these data on expenditures by constructing a new measure of net nominal position at the county level. I follow a separate procedure for assets and liabilities. For nominal assets, I start from the total nominal assets held by US domestic households as computed in Pallotti (2022), and then assign it proportionally across counties based on each county share of yearly interest income over national interest income reported by the IRS Statistics of Income.[15] For nominal liabilities, I use the debt-to-income ratio for each county in 2021 Q1 reported by the NY FED, and scale it by income at the county level

[15] I thus abstract away from differences in maturity structure of nominal positions across counties and adopt a risk-neutral approach with respect to differential exposure to default risk, assuming this is fully reflected in interest income.

reported by the IRS Statistics of Income.[16]

The net nominal position of county j is therefore simply:

$$NNP_j = NA\frac{I_j}{I} - DTI_j Y_j \tag{12}$$

Where NA represents total nominal assets held by U.S. households, I_j yearly interest income in county j, (DTI_j) and Y_j respectively the debt-to-income ratio and yearly income of county j.

Regression I follow the same approach as in section 4.1.1, regressing the change in consumption at the county level during the inflationary shock on a measure of the county-level NNPs at the start of the period. I scale county-level NNP by its income Y_j. As the daily or weekly values are extremely volatile, as before I take an average of June and July 2021 as a starting point of the inflation episode and of August and September 2023 as the endpoint. [17] The results are robust to alternative specifications for the time interval. Equation 13 below describes my empirical strategy:

$$\Delta \log(C)_j = \alpha + \beta_1 \frac{\text{NNP}_j}{Y_j} + \boldsymbol{\beta_2} \mathbf{X}_j + \epsilon_j \tag{13}$$

I control for a number of confounding factors X_j which may have been relevant to determine the county-level spending growth over the inflationary shock. These include state-level fixed effect, industry composition at the county level (defined as the share in employment for each NAICS 2-digit sectors) and the level of employment in each county at the start of the inflation episode (an average over the first two months, as above).

Results Table 5 reports the results. Consistently with the theory, counties with a more negative NNP tended to exhibit higher spending growth following the onset of the inflationary trend. As before, the first column uses all controls: as we move to the right side of the table, these controls are progressively excluded. The magnitude of

[16]Figure 20 in the appendix illustrates the variation in the debt-to-income ratios at the county level.
[17]Data are seasonally adjusted as in Chetty et al. (2020).

the coefficient shrinks, and the sign flips once we do not limit ourselves to within-State variation and do not control for industry composition.

Table 6 decomposes the NNP/Y at the county level into nominal assets and liabilities, again gradually excluding controls as we move to the right side of the table. Consistently with the theory, counties with more nominal debt have seen a larger consumption response, which is close to being statistically significant. The effect of nominal assets is much less precisely estimated, and the point estimate is slightly above zero, in contrast with the theory.

Table 5: NNP and Spending Growth at the county level

	(1)	(2)	(3)	(4)
NNP/Y	-0.2866	-0.1018	0.1476	0.6640
	(0.459)	(0.385)	(0.295)	(0.300)
State FE	✓	✓	✓	
Industry Comp.	✓	✓		
Employment	✓			
N	952	1607	1607	1607
R^2	0.447	0.394	0.371	0.007

Results of regression 13 of consumption growth from June-July 2021 to August-September 2023 on NNP/Y (net nominal position relative to income) plus controls, all at the county level. Controls include state-level fixed effect, industry composition at the county level (defined as the share in employment for each NAICS 2-digit sectors) and the level of employment in each county at the start of the inflation episode.

Table 6: NOMINAL ASSETS AND LIABILITIES AND SPENDING GROWTH AT THE COUNTY LEVEL

	(1)	(2)	(3)	(4)
NL/Y	0.7193	0.4640	0.0683	-0.1168
	(0.691)	(0.574)	(0.351)	(0.678)
NA/Y	0.1300	0.277	0.4600	-1.2669
	(0.736)	(0.679)	(0.795)	(0.525)
State FE	✓	✓	✓	
Industry Comp.	✓	✓		
Employment	✓			
N	952	1607	1607	1607
R^2	0.448	0.394	0.372	0.011

Results of regression 13 of consumption growth from June-July 2021 to August-September 2023 on NL/Y and NA/Y (respectively, nominal liabilities and nominal assets relative to income) plus controls, all at the county level. Controls include state-level fixed effect, industry composition at the county level (defined as the share in employment for each NAICS 2-digit sectors) and the level of employment in each county at the start of the inflation episode.

5 Implications for Monetary Policy

The previous two sections focused on the importance of the Fisher channel in the context of the surprising strength of aggregate demand in the US post-pandemic. In this section, I move beyond the current inflationary episode and study monetary policy in my HANK model with a quantitatively disciplined Fisher channel.

Monetary policy shocks I start by simulating a standard 25 bps expansionary shock with persistence $\rho = 0.7$ as in Kaplan et al. (2018).[18] I trace out the IRFs of consumption and inflation when households and the government have nominal assets, as in my model, and then contrast those IRFs with the case in which all assets are real - as in most baseline HANK models, where inflation has no redistributive impacts.

[18] The path for the monetary policy shock is reported in figure 14 in the appendix.

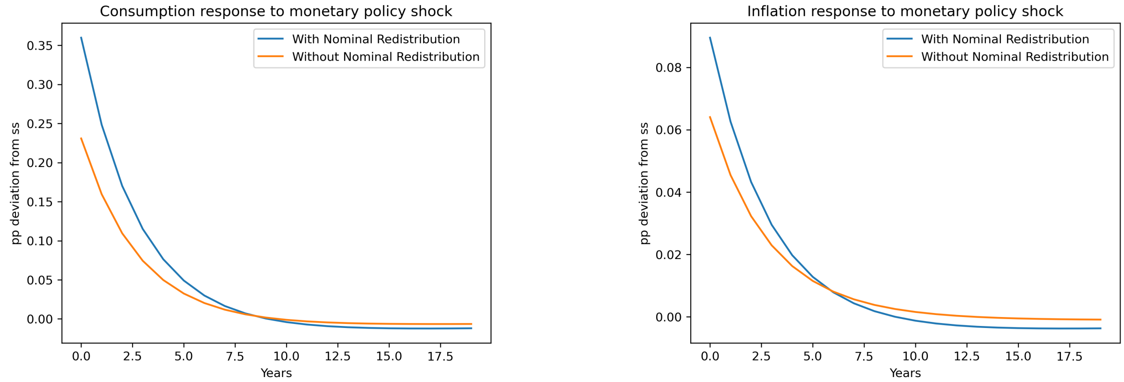


Figure 7: Impulse response functions of consumption and inflation to a standard monetary policy shock with and without an active Fisher channel in the model. In the model with nominal assets, monetary policy is around 50% more powerful as it also induces unexpected wealth redistribution across households.

Figure 7 reports the results. The left panel shows that an active Fisher channel makes monetary policy almost 50% more powerful on impact in its transmission to consumption. The intuition is the same as in the previous section: a persistent monetary policy shock generates some unexpected inflation (reported in the right panel of figure 7) which redistributes resources from wealthy households towards indebted ones with a higher MPC. In turn, this also generates more inflation thorough the standard New Keynesian Wage Phillips Curve 4.[19]

Increasing the degree of activeness of monetary policy through a higher coefficient on inflation in the Taylor rule 5 reduces the differences across models with nominal and real assets. Intuitively, in the case of an expansionary monetary shock, the systematic component of monetary policy when the Taylor coefficient is higher responds more strongly to counteract any inflationary impact stemming from the Fisher channel. In turn, this limits the differences across the model with nominal and the one with real assets.

Nominal Rigidities and the Effectivness of Monetary Policy In my model, varying the degree of nominal rigidity produces two opposing effects on the impact of monetary policy shocks on consumption. On the one hand, consistent with conventional wisdom,

[19] As reported in the previous section, over time, the smaller but more persistent cut to consumption by wealthy households - who behave more according to the permanent income hypothesis (Friedman (1957)) - dominates the increase in consumption of indebted households. The aggregate consumption IRFs to an expansionary monetary policy shocks therefore mildly undershoots its real-assets counterpart at long horizons.

reducing nominal rigidities means that the real interest rate responds less to a monetary policy shock, decreasing the effectiveness of monetary policy. On the other hand, less nominal rigidity also leads to more wealth redistribution across households due to a stronger (unexpected) reaction of inflation, which increases the positive impact of an expansionary monetary policy shock on consumption.[20]

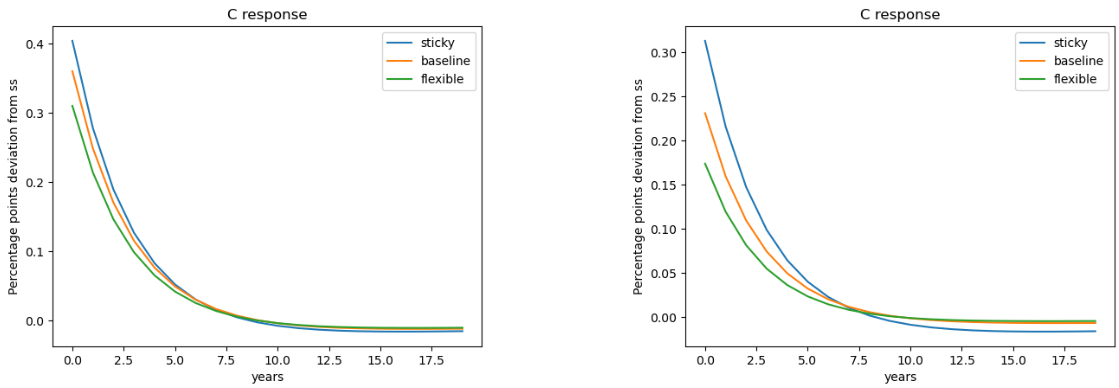
In my benchmark calibration of the model, the first channel through the real-rate still quantitatively dominates the opposing force arising from the Fisher channel. Therefore, consistent with conventional wisdom, monetary policy is still more effective the higher the degree of nominal rigidities. However, the Fisher channel still plays a significant quantitative role in dampening the differences across levels of nominal stickiness.

Figure 8 visualizes this point. The left panel shows the IRF of consumption in my benchmark model to the same monetary policy shock as in the previous paragraph, for different calibrations of the slope of the New Keynesian Wage Phillips Curve (4), denoted by κ_w. Monetary policy is more effective the stickier nominal wages are, but the differences between IRFs are relatively small, due to the counterbalancing effect of the Fisher channel. The right panel of Figure 8 shows the same IRFs of consumption across the same values of κ_w, but in a model with only real assets. The differences in consumption IRFs across different values of κ_w are now much larger due to the absence of the Fisher channel. As discussed in the previous paragraph, the absence of the Fisher channel also dampens the overall impact of monetary policy on consumption.

For some extreme parameterizations of the model that overstate the covariance between the marginal propensity to consume (MPC) and net nominal positions (NNP), the Fisher channel actually dominates the conventional impact of monetary policy on the real interest rate. This generates a "paradox of flexibility" whereby monetary policy has larger real effects the smaller the degree of nominal rigidity in the model. However, this paradox arises from a different mechanism than the one emphasized by Eggertsson and Krugman (2012), which operates through the effects of unexpected inflation in lowering the real interest rate when the nominal rate is stuck at the zero lower bound (ZLB). In my model, when monetary policy is stuck at the ZLB and the economy faces a de-

[20]Of course, the reverse applies to contractionary shocks.

mand shock, the Fisher channel will add to the real-rate channel, making the paradox of flexibility identified by Eggertsson and Krugman (2012) even more pronounced.



Model with Fisher Channel **Model without Fisher Channel**

Figure 8: Impulse response functions of consumption to a standard monetary policy shock for different degrees of nominal rigidity in the model. Left panel: benchmark model with nominal assets; right panel: model with real assets, where there is no redistribution of wealth generated by inflation. Sticky: $\kappa_w = 0.05$; baseline: $\kappa_w = 0.10$; flexible: $\kappa_w = 0.15$.

6 Conclusions

Despite the seminal work by Auclert (2019), which emphasized the relevance of the Fisher channel in Heterogeneous Agent New Keynesian (HANK) models, much of the literature has continued to model assets in HANK as one-period real bonds or in continuous time, where inflation has no redistributive role by construction. In response to the current inflationary episode, recent work such as Yang (2022), Kaplan et al. (2023), Angeletos et al. (2023), and Angeletos et al. (2024) have started to incorporate nominal assets in HANK. Relative to this emerging literature, I construct a HANK model that accurately matches key features of the empirical distribution of net nominal positions (NNP) and the covariance between marginal propensity to consume (MPC) and NNP - a sufficient statistic in a broad class of environments identified by Auclert (2019).

According to the model, the wealth redistribution generated by the unexpected inflation shock in the U.S. raised aggregate consumption by approximately 0.5% on impact, with the positive contribution persisting for several years. This finding is consistent with empirical evidence obtained from a fintech company's data covering expenditures of 4 million U.S. households over the inflationary period. The data show that households with mortgages increased their consumption more than the rest of the population, aligning with the model's predictions. Cross-county empirical analysis corroborates these findings.

The model also shows that monetary policy becomes more effective in stimulating consumption when the Fisher channel is active, as unexpected inflation redistributes wealth toward indebted households with higher MPCs. It also shows that the extent of nominal rigidities is less crucial in shaping the effectivness of monetary policy, as in presence of the Fisher channel, monetary policy can have real effects also with perfectly flexible prices. Finally, it enhances the 'paradox of flexibility' at the zero lower bound.

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Appendix A Model

A.1 Unions

This sections describes the key steps behind the New Keynesian Wage Phillips Curve ??. It recaps the crucial steps in Auclert et al. (2018), referring to that paper for further details. In the spirit of Erceg et al. (2000), each worker belongs to a union k, which employs a fully representative sample of the population. Each union aggregates individual tasks into $N_{kt} = \int e_{it} n_{ikt} di$. These tasks are combined by a competitive labor packer into aggregate employment according to

$$N_t = \int \left(N_{kt}^{\frac{\epsilon-1}{\epsilon}} dk \right)^{\frac{\epsilon}{\epsilon-1}}$$

and sold to firms at price W_t.

Adjusting wages has quadratic costs that feed in directly in the utility function. Each union sets a common wage W_{kt} for each efficient unit of labor provided by its members and (for simplicity) asks each member to work the same amount of hours, so $N_{kt} = n_{ikt}$.[21]

W_{kt} is set by each union in order to maximize the average utility of its members:

$$\max_{W_{k,t}} \sum_{\tau \geqslant 0} \beta^{\tau+T} \left(\int \{u(c_{i,t+\tau}) - v(m_{i,t+\tau})\} d\psi_{i,t+\tau} - \frac{\psi}{2} \left(\frac{W_{k,t+\tau}}{W_{k,t+\tau-1}} - 1 \right)^2 \right)$$

where $\psi_{i,t+\tau}$ is the density of households, $-\frac{\psi}{2} \int \left(\frac{W_{kt}}{W_{kt-1}} - 1 \right)^2 dk$ is the quadratic cost of adjusting wages, and the maximization is subject to the demand curve for labor:

$$N_{kt} = \left(\frac{W_{kt}}{W_t} \right)^{-\epsilon} N_t$$

Where $W_t = \left(\int W_{kt}^{1-\epsilon} dk \right)^{\frac{1}{1-\epsilon}}$ is the price index for aggregate employment services.

Taking the first-order condition wrt to $W_{k,t}$, applying the envelope theorem whereby $\frac{\partial c_{it}}{\partial W_{kt}} = \frac{\partial z_{it}}{\partial W_{kt}}$ (recalling the definition of z_{it} from 3), recognizing that all unions are identical and thus in equilibrium $W_{kt} = W_t$, defining wage inflation $\pi^w = \frac{W_t}{W_{t-1}} - 1$ and rearranging as in Auclert et al. (2018) we arrive at the New Keynesian Wage Phillips Curve:

$$\pi_t^w (1 + \pi_t^w) = \frac{\epsilon}{\psi} \int N_t \left(v'(n_{it}) - \frac{\epsilon - 1}{\epsilon} \frac{\partial z_{it}}{\partial n_{it}} u'(c_{it}) \right) di + \beta \pi_{t+1}^w (1 + \pi_{t+1}^w) \tag{14}$$

According to 14, the unions set higher wages whenever the marginal rate of substitution between hours and consumption is above the marginal income from extra hour (after tax), marked down by ϵ.

Which in unions set higher wages when the average of marginal rates of substitution between hours and consumption for households $(v'_{n_{it}}/u'_{c_{it}})$ exceeds a marked-down average of marginal after-tax income from extra hours.

Equation 14 can be rewritten in terms of aggregates by noticing that in equilibrium since $n_{it} = N_{kt} = N_t$ we have:

[21] As noted by Auclert et al. (2018), a more general rule $n_{it} = n(e_{it})N_t =$ would be equivalent to redefine the e_{it} including the function n.

$$\frac{\partial z_{it}}{\partial n_{it}} = (1-\theta)\tau_{it} e_{it}^{1-\theta} \left(\frac{W_t}{P_t}\right)^{1-\theta} N_t^{-\theta} = (1-\theta)\frac{e_{it}^{1-\theta}}{\int e_{it} di}\frac{Z_t}{N_t}$$

And therefore:

$$\pi_t^w(1+\pi_t^w) = \frac{\epsilon}{\psi}\left(N_t v'(N_t) - \frac{\epsilon-1}{\epsilon}(1-\theta)Z_t u'(C_t^*)\right) + \beta\pi_{t+1}^w(1+\pi_{t+1}^w)$$

Where $u'(C_t^*)$ is defined as

$$u'(C_t^*) = \int \frac{e_{it}^{1-\theta} u'(c_{it})}{\int e_{it}^{1-\theta} di} di$$

Substituting in for the utility function, we get equation Finally, I specify the utility function from the constant elasticity of substitution (CES) family with intertemporal elasticity σ, $u(c) = \frac{c^{1-\frac{1}{\sigma}}}{1-\frac{1}{\sigma}}$, and disutility from work with Frisch elasticity of labor supply ϕ as $v(N) = \gamma N^{1+\frac{1}{\phi}}$.

A.2 Inflation, nominal wages and house prices

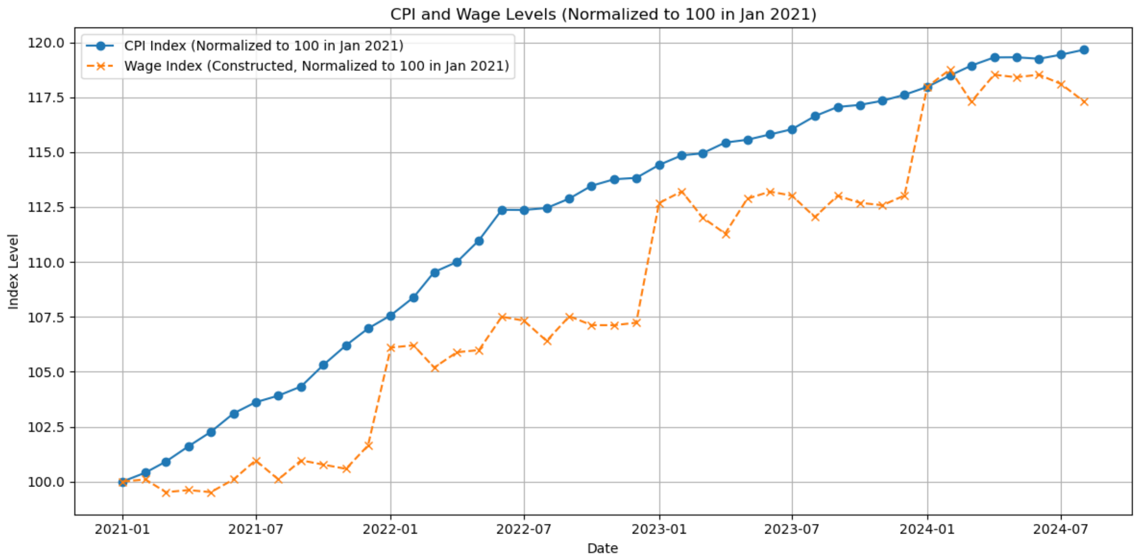

Figure 9: Price-level path for CPI and nominal wages from the Atlanta Fed Wage Tracker, normalized to 100 as of December 2020.

A.3 Inflation shock

The figure below report the difference in the expected path of inflation and its actual realization from December 2020. The cumulated difference until December 2022 (the devaluation used in the paper) has been 10%.

Of course, inflation expectations adjusted (gradually) upwards over the course of the episode. However, as most nominal assets and liabilites are long term claims, with an average duration of 4.5 years, any adjustment of inflation expectations after December 2020 - which reduces the

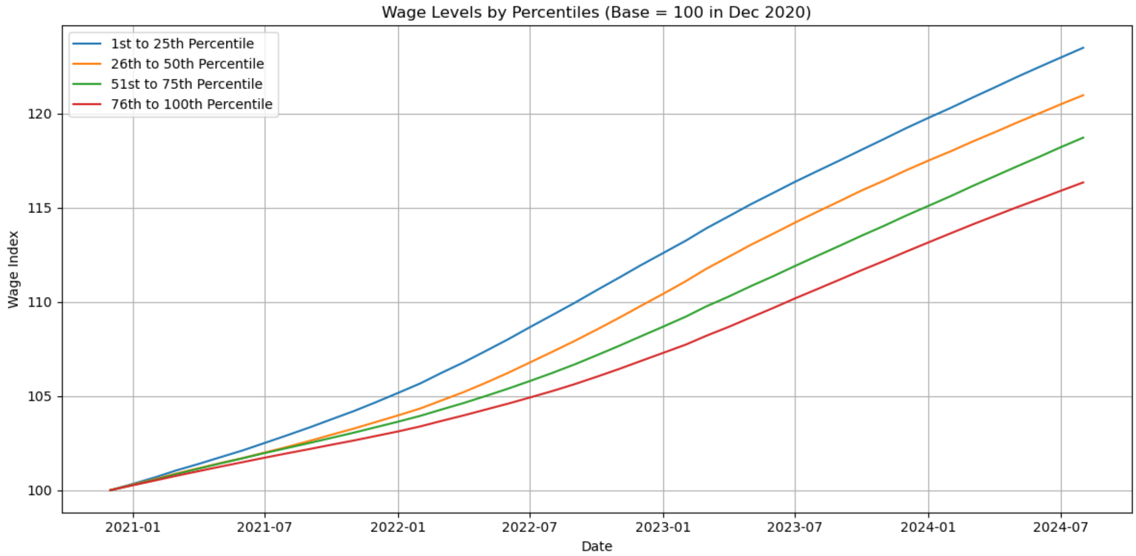

Figure 10: Path for nominal wages constructed from 12-Month Moving Averages Growth Rates from teh Atlanta Fed Wage Tracker for quartiles of the wage distribution, normalized to 100 as of December 2020.

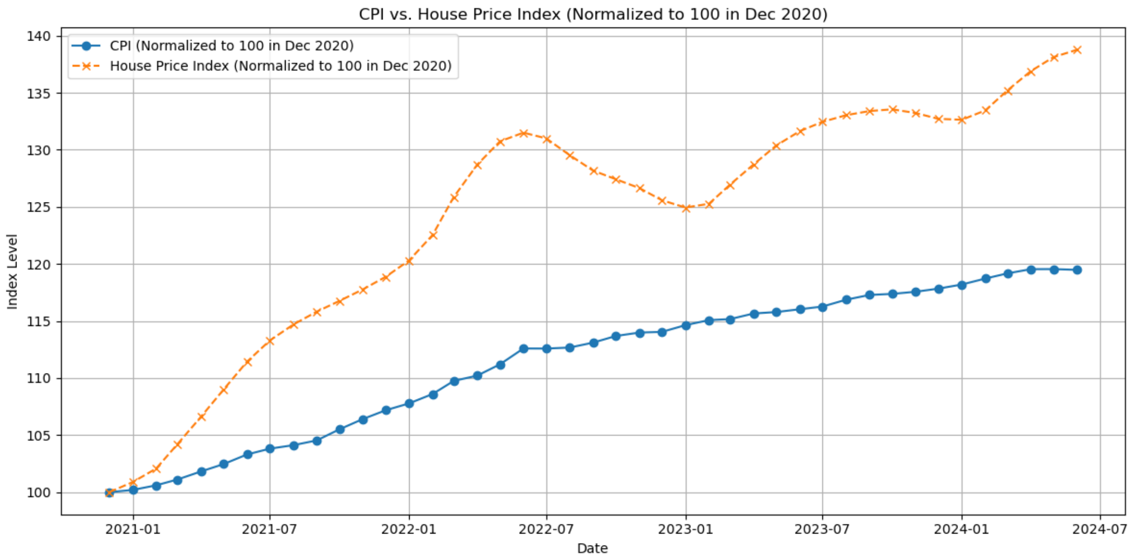

Figure 11: Price-level path for CPI and the Case-Shiller U.S. National Home Price Index from Standard & Poors, normalized to 100 as of December 2020.

extent of the actual surprise - does not really affect the devaluation of the stream of payments implied in long-term nominal assets or liabilities, such as Treasuries or fixed-rate mortgages. It does affect short-term ones, like deposits or consumer-credit, in case they are reinvested/refinanced at higher nominal rates.

As monetary policy started to gradually raise interest rates over the course of 2022, this could slightly overstate the actual devaluation faced by short-term nominal assets and liabilities over the period, reducing the actual amount of redistribution. However, this effect should be quantitatively small given the high average duration of nominal assets and liabilities and the fact that most of the rise in interest rates happened towards the end of 2022 and afterwards. Moreover, figure 13 shows that this gap between historically expected and actual evolution of inflation continued well into 2023-2024, adding (at the time of writing) an additional 2.5 pp, which then understate the actual amount of redistribution.

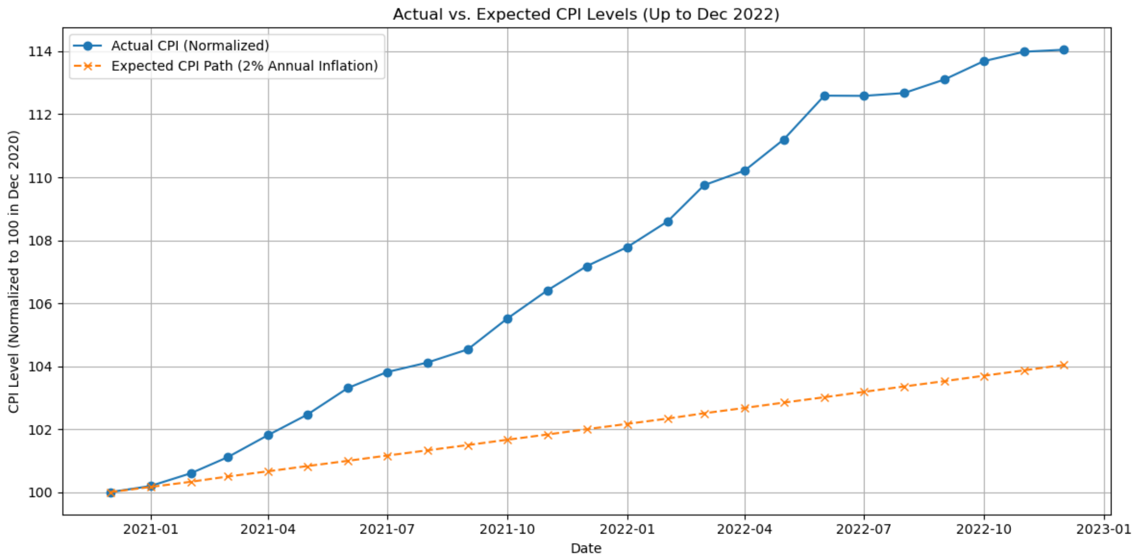

Figure 12: Actual and expected price-level path for CPI from December 2020 to December 2022. Expectations according to the Survey of Professional Forecasters as of December 2020.

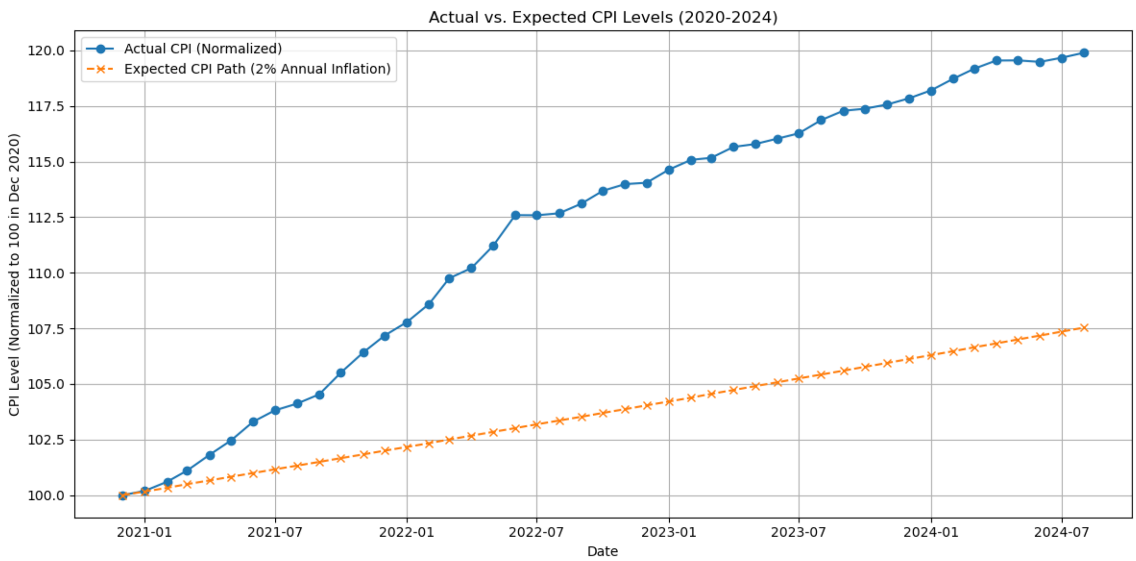

Figure 13: Actual and expected price-level path for CPI from December 2020 to August 2024. Expectations according to the Survey of Professional Forecasters as of December 2020.

A.4 Robustness to alternative specifications

A.4.1 Maturity structure of long-term bonds

A.4.2 Adjusting taxes

A.5 Structural shocks

A.6 Policy implications and the paradox of flexibility

Appendix B Empirical Evidence

B.1 Data sources

B.2 Fintech data vs US official aggregates

B.3 Robustness

B.4 Alternative time intervals

B.5 Additional figures

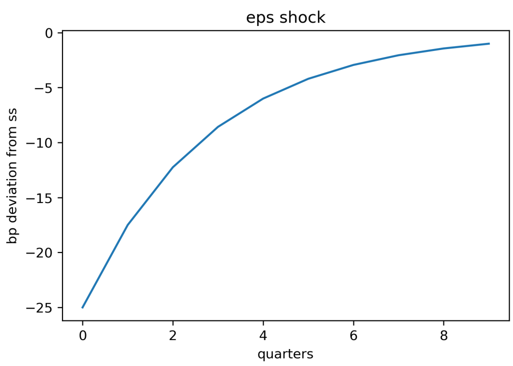

Figure 14: Monetary policy shock with persistence $\rho = 0.7$ as in Kaplan et al. (2018)

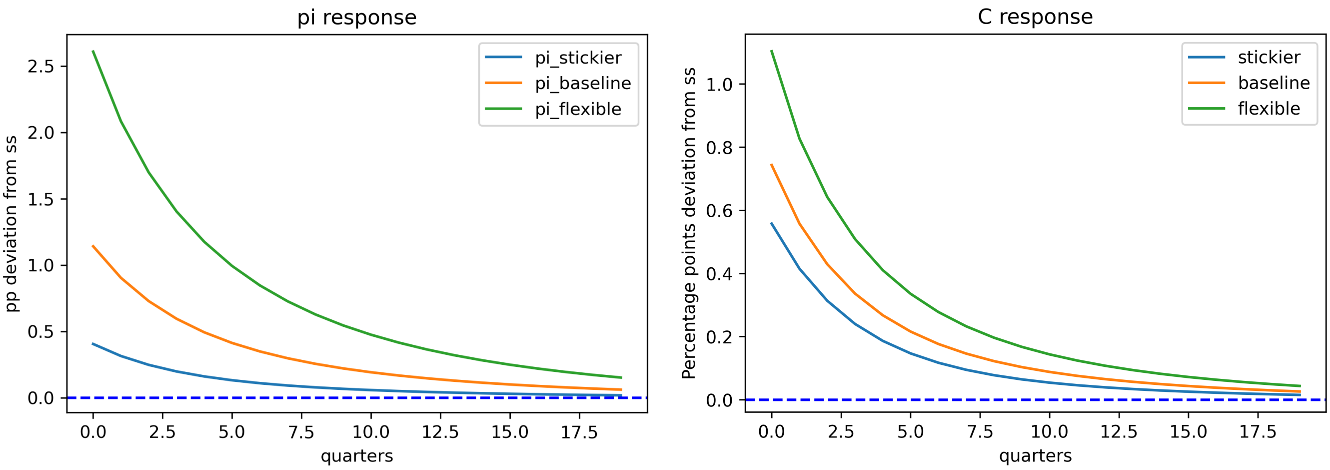

Figure 15: Monetary policy shock and the response of consummption and inflation in the model with extreme parameterization of the Fisher Channel. Stickier: $\kappa = 0.01$, baseline: $\kappa = 0.05$, flexible: $\kappa = 0.1$.

Table 7: Mortgage debt and Spending Growth

	(1)	(2)	(3)	(4)
M	0.0513	0.0457	0.0242	0.0238
	[0.05, 0.052]	[0.044, 0.047]	[0.023, 0.25]	[0.023, 0.25]
Income FE.	✓	✓		
State FE	✓		✓	
N	3.4mn	4.2mn	3.4mn	4.2mn
R^2	0.008	0.006	0.002	0

Results of regression 10 of consumption growth from June-July 2021 to September-October 2023. Brackets contain 95% confidence intervals. The fintech sample includes users with at least 1 transaction per month.

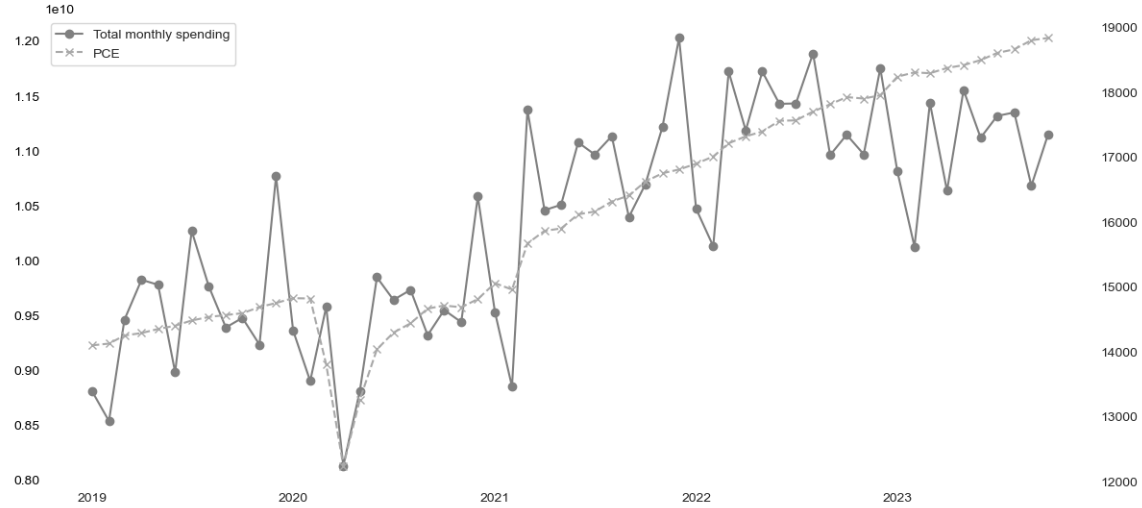

Figure 16: Comparison of official US Personal Consumption Expenditures data with fintech-based aggregate expenditures, January 2019 to October 2023. Note: data for US PCE are seasonally adjusted

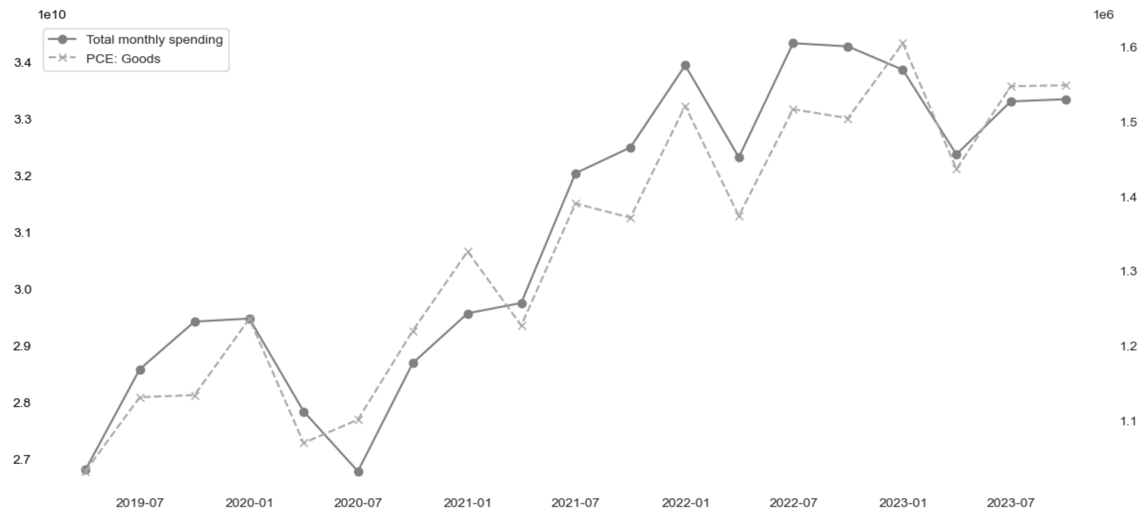

Figure 17: Comparison of official US Personal Consumption Expenditures on Goods with fintech-based aggregate expenditures, January 2019 to October 2023. Note: data for US PCE are seasonally adjusted and quarterly.

Table 8: MORTGAGE DEBT AND SPENDING GROWTH BY INCOME CLASS

	(1)	(2)	(3)	(4)	(5)	(6)
γ_k	-0.037	0.074	0.09	0.088	0.089	0.082
	[-0.06, -0.014]	[0.05, 0.098]	[0.067, 0.114]	[0.064, 0.111]	[0.066, 0.112]	[0.058, 0.10
Income FE.	✓	✓	✓	✓	✓	✓
State FE	✓	✓	✓	✓	✓	✓
N	3.4mn	3.4mn	3.4mn	3.4mn	3.4mn	3.4mn
R^2	0.01	0.01	0.01	0.01	0.01	0.01

Results of regression 11 of consumption growth from June-July 2021 to September-October 2023, where a mortgage indicator M_i is interacted with seven fintech-defined income classes ($k = 1, \ldots, 7$). Brackets contain 95% confidence intervals. The fintech sample includes users with at least 1 transaction per month.

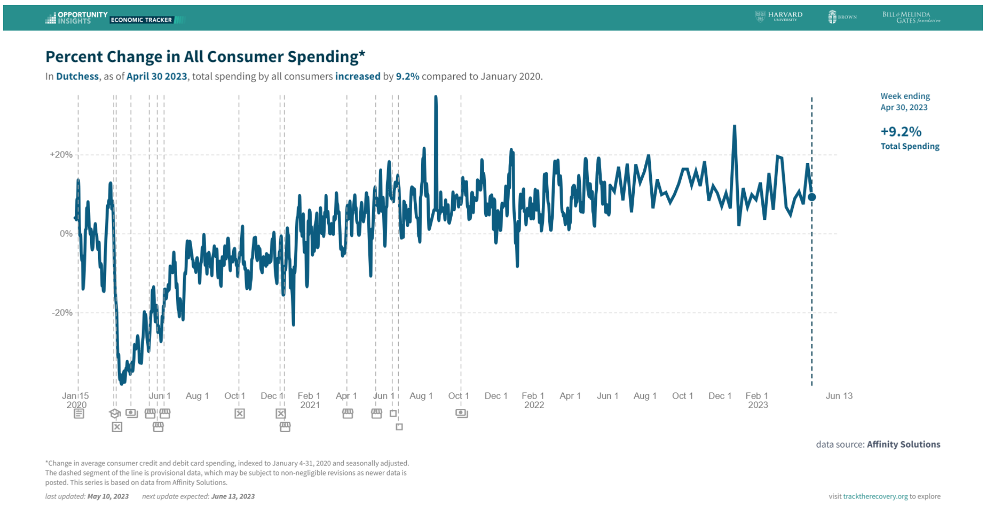

Figure 18: Example for the county of Dutchess of credit and debit card spending from January 1st 2020 to April 30th 2023. Source: https://tracktherecovery.org/.

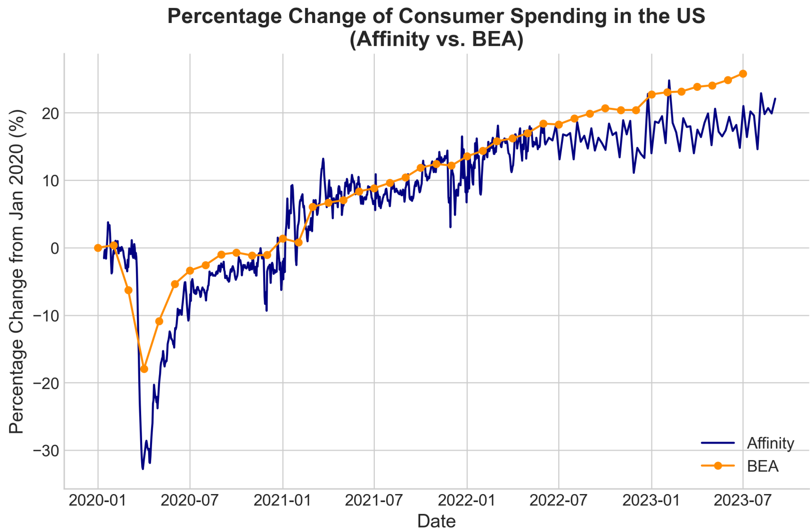

Figure 19: Total consumer spending in the US - Affinity versus BEA Personal Consumption Expenditures.

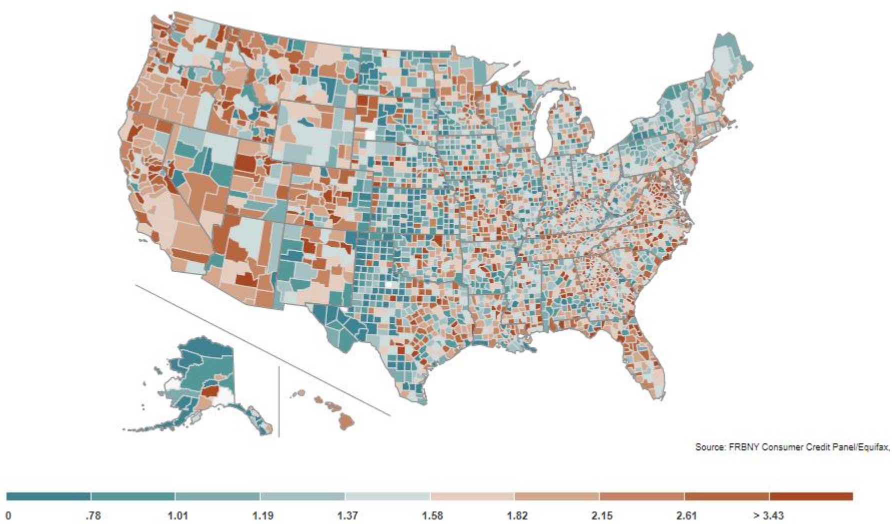

Figure 20: Debt to income ratio for US counties. Source: Federal Reserve of New York.

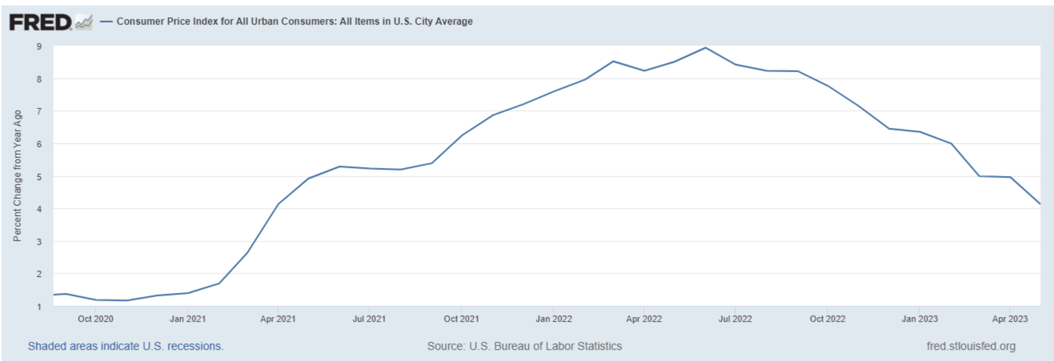

Figure 21: CPI for the US. Source: Fred.

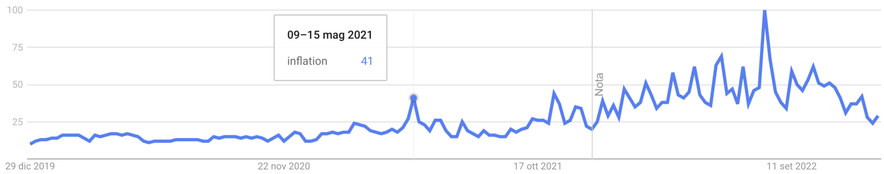

Figure 22: Google searches for inflation in the US. Source: Google Trends.