# (Un)Conventional Monetary and Fiscal Policy
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Discussion by Hikaru Saijo (UC Santa Cruz)

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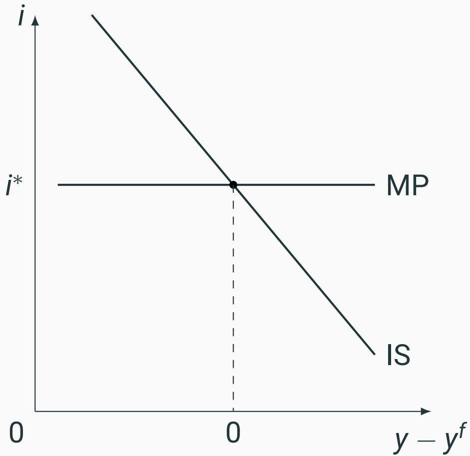
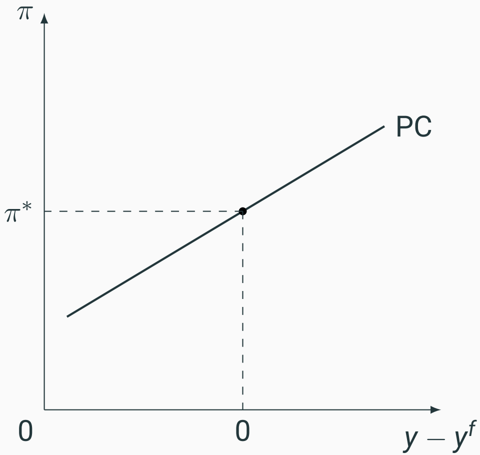
# A framework to jointly study conventional & unconventional policies

- **Very nice paper with rich insights**
- A parsimonious model to analyze important policy questions
- Novel: stabilization of output gap & inflation (divine coincidence) from an interest rate policy together with QE or fiscal transfers
- Insight: unconventional policies useful even in normal times

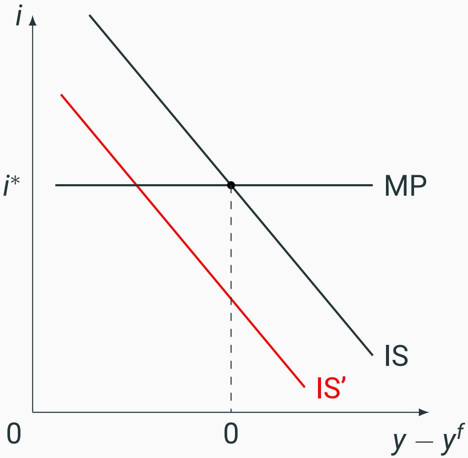
# IS-MP-PC diagram: representative-agent NK model

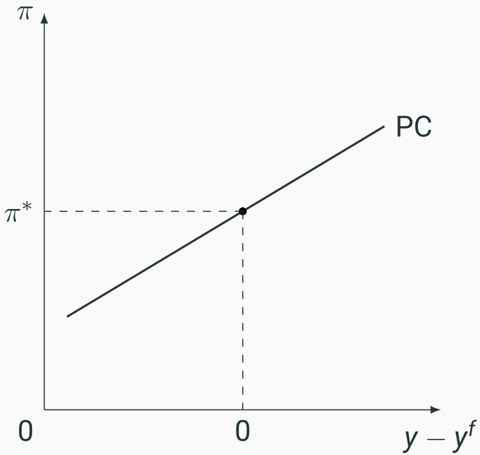



*Chad Jones "Macroeconomics" textbook*

# Divine coincidence: TFP shock




Key: tight link between output gap and inflation in the Phillips curve

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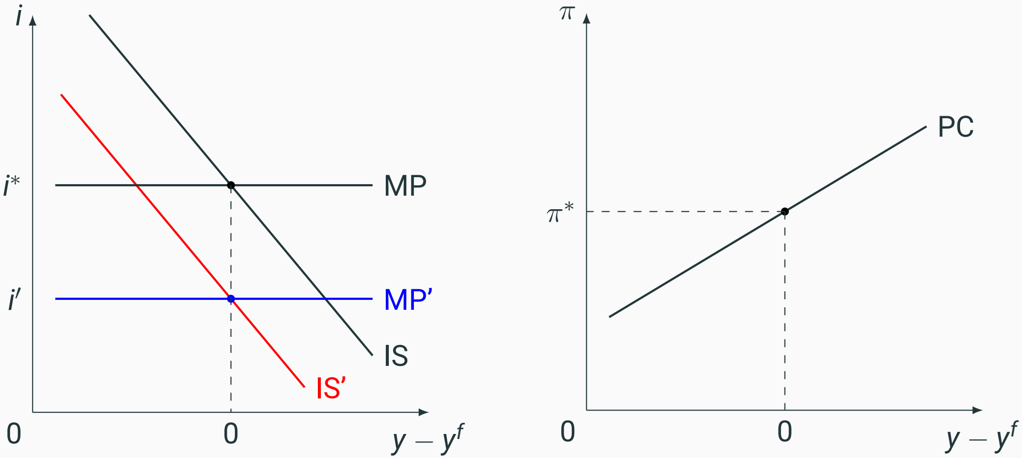


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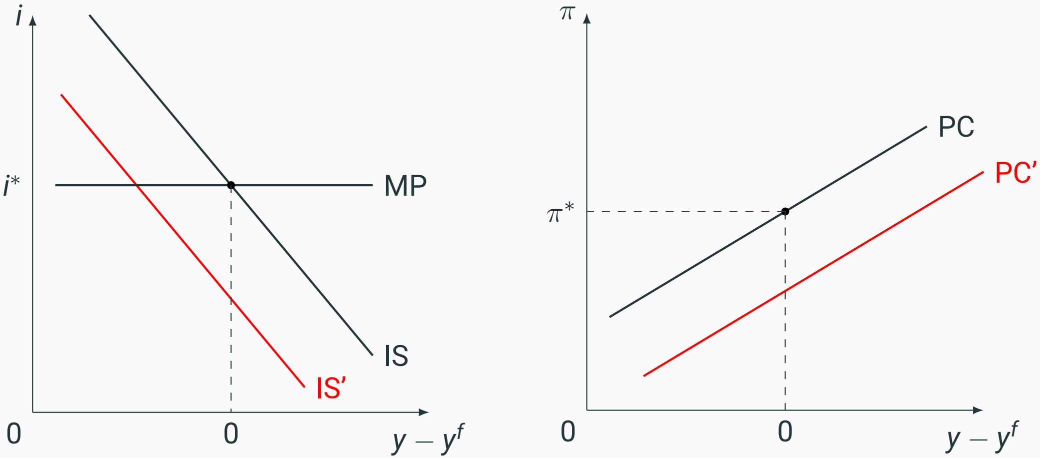
# Breaking the divine coincidence: TFP shock + real rigidities




This paper: household heterogeneity with borrowing constraint

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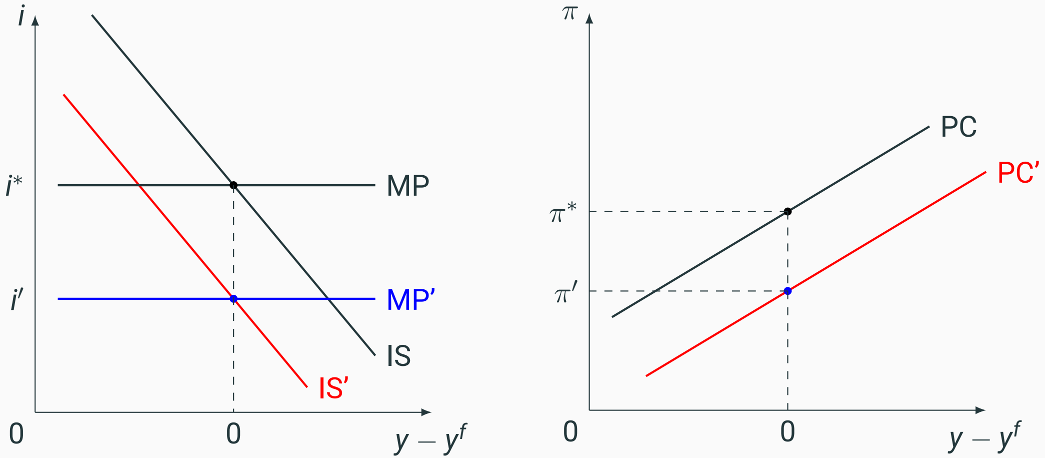


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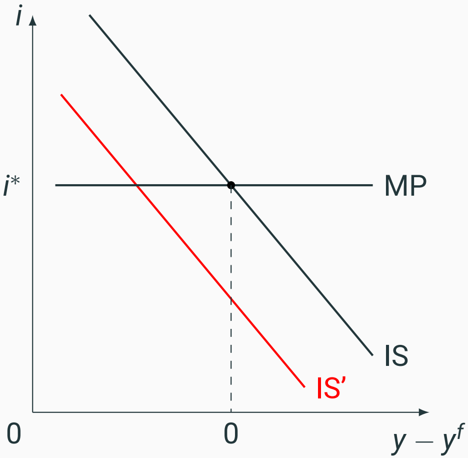
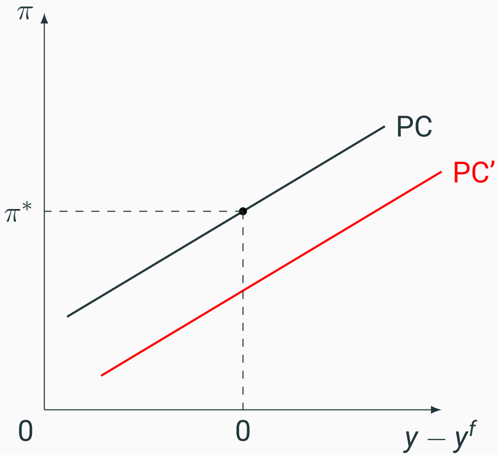
# Restoring the divine coincidence: conventional MP + (QE or transfers)




Intuition: neutralize real rigidity (borrowing constraint) through QE or transfers

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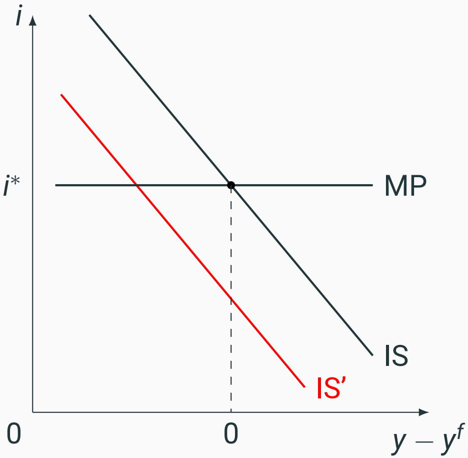


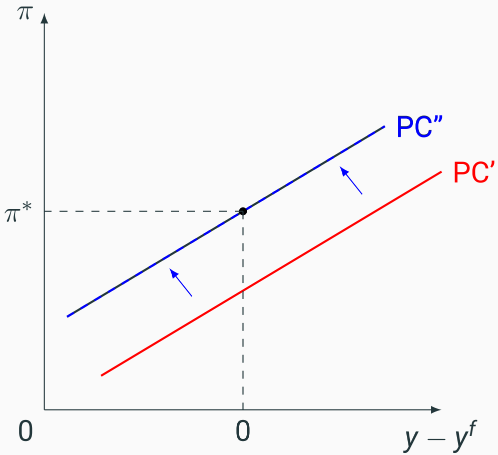


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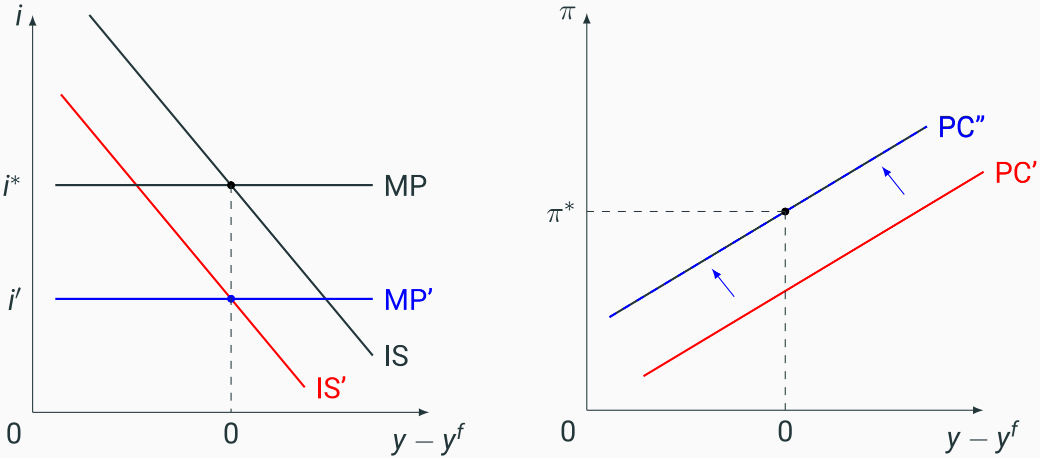


Intuition: neutralize real rigidity (borrowing constraint) through QE or transfers

# What happens when we cannot use conventional monetary policy?

- **Can a combination of QE and transfers restore the divine coincidence?**

- No (in this model)
    - QE and transfers works through the same channel $\Rightarrow$ isomorphic (increasing contrained HH's consumption by relaxing borrowing constraint)

- Reasons to think QE and transfers may work differently
    - QE: firm credit constraint channel, signalling effect, ...
    - Transfers: labor supply effect of constrained HH, ...

- Allowing for these additional channels could generate richer insights into how unconventional policies help stabilize macroeconomy