Response to Editor
Quantitative Economics MS 2442
"Welfare and Spending Effects of Consumption Stimulus Policies"

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Thank you for giving us the chance to resubmit our paper "Welfare and Spending Effects of Consumption Stimulus Policies" to Quantitative Economics. And thank you for your thoughtful comments and suggestions for how to improve our paper. They were all very useful to us in revising it. We believe the paper has improved greatly through the revision and we hope you agree.

In the following, we first summarize the main changes we have made based on your and the referees' suggestions. Thereafter, we go through how we have dealt with the specific requests from you. For each request, we first repeat your comment in italics and then respond how we have dealt with them.

1 Summary of Main Changes

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2 Remaining issues

1. ***Splurge.*** *Reading the current draft of the paper, one feels almost as if there is no reason for including the "splurge" consumption component in the analysis. But I think this is unfair and maybe you should highlight this a bit more. For example, the model without splurge requires unreasonably low, in my opinion, discount factors for some agents while the distribution looks a lot more reasonable when you allow for splurge.*

   I also wonder how the splurge consumption approach compares to the "infrequent" consumption component introduced in Melcangi and Sterk (2024)? On the surface, the two approaches look very different, but both can generate very high MPCs. A very short discussion would suffice.

   Response.

2. ***Computation.*** *Referee 1 (the report that starts "In this revision,") asks why you do not use the non-linear transition method of Boppart, Krusell, and Mitman (2018) to accommodate a large shock? I think a short sentence in the paper on this is ok.*

   Response.

3. ***The welfare measure.*** *Referee 2 (the report that starts "Overall, I view" would like you to discuss your welfare measure and motivate better why you do not use a "simple" utilitarian measure. I agree with the referee. I was initially thinking that your measure would be similar to using Negishi weights, but I do not think this is true (and it would also be odd to use Negishi weights under incomplete markets). I am not sure either whether your measure allows one to figure whether the policies are PPI (Potentially Pareto Improving) when allowing for redistribution, but I don't think so either. I do not want you to change the welfare measure, but just to include a paragraph discussing the reasons for your choice.*

   Response.

4. ***The HANK&SAM model*** *All three referees and myself appreciate the introduction of the HANK&SAM model, but some issues also come up:*

   - *I think most readers would struggle to get much out of the model description in Section 5. Please extend it a bit.*

     Response.

   - *When comparing Figures 4 and 8, the size of the effects in the PE and the GE models seem very different, but I think this is due to a scaling issue. Please check.*

     Response.

- *Referee 1 suggests that the HANK&SAM model should have been the baseline model and, in comment Additional (a), points out that you seem to dismiss the model for no reason. I do not want you to change the baseline model, but the sentence in the introduction highlighted by the referee seems odd having read the paper.*

  Response.

- *I found the citation/credit for the HANK&SAM model a bit odd since Vincent Sterk and I were pushing this line of work for many years in our 2017 JME paper as well as in our JEEA 2021 paper. But you can keep the citations as they are, I am probably just over-sensitive to the issue because it took us 6 years to publish the 2017 paper.*

  Response.

5. ***Fiscal policy evaluation.*** *There is by now a lot of work on fiscal multipliers, their determinants, interpretation etc. It would thus be unreasonable to expect you to fully relate your paper to extant work. However, one paper that I have seen presented which shares a lot of similarities with your's is Broer, Druedahl, Harmenberg, and Öberg (2024). These authors seem to find somewhat different results from you. It would be good to have a very short discussion of this.*

   Response.

6. ***Tables and Figures.*** *Please make sure all tables and figures are self-explanatory.*

   Response.

Thank you again for your careful advice on our paper. We hope you find our revision satisfactory.

References

Boppart, Timo, Per Krusell, and Kurt Mitman (2018): "Exploiting MIT shocks in heterogeneous-agent economies: the impulse response as a numerical derivative," *Journal of Economic Dynamics and Control*, 89, 68–92.

Broer, Tobias, Jeppe Druedahl, Karl Harmenberg, and Erik Öberg (2024): "Stimulus effects of common fiscal policies," Discussion paper, Working Paper.

Melcangi, Davide, and Vincent Sterk (2024): "Stock market participation, inequality, and monetary policy," *Review of Economic Studies*, p. rdae068.