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Statistics Norway

"**Welfare and Spending Effects of Consumption Stimulus Policies**" (QE Manuscript #2442-2).

Dear Håkon:

Thank you for resubmitting your manuscript to **Quantitative Economics**. I have now heard back from the three referees, and I have read the revised paper myself. I am pleased to inform you that, on this basis, I have decided to invite your paper for another revision.

The feedback that I have received from the three referees is very positive, and I agree with the referees: You have done an excellent job with the revision and the paper has improved very significantly. The current version of the paper has a lot of interesting economics in it and is very stimulating. The referees all flag some final issues, but they should be straightforward to address and involve primarily some light redrafting. Hence, I do not foresee returning the paper to the referees in the next round. I am using the R&R decision category rather than a conditional acceptance because this latter option is reserved for papers that are ready for a replication check.

Here are the 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 ("Stock Market Participation, Inequality, and Monetary Policy," forthcoming, Review of Economic Studies)? On the surface, the two approaches look very different, but both can generate very high MPCs. A very short discussion would suffice.

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

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.

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.
- 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.
- 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.
- 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.

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 you paper to extant work. However, one paper that I have seen presented which shares a lot of similarities with your's is "Stimulus Effects of Common Fiscal Policies" by Broer, Druedahl, Harmenberg and Öberg, available at **https:/www.karlharmenberg.com/papers**.

These authors seem to find somewhat different results from you. It would be good to have a very short discussion of this.

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

As you can see, the current revision is very light. The paper belongs to you and I do not want to force you to redraft it to my own taste. I hope the issues above will be relatively straightforward to deal with so that you can return the paper swiftly.

I would also like you to keep in mind that the journal requires authors to share their replication data and code files (all tables and figures should be replicable). Prior to being accepted for publication, the software and data will be subjected to a replication check by a dedicated team. You will find here information here:

https://www.econometricsociety.org/publications/es-data-editor-website

Hence, it would be wise to make sure your paper can be replicated and prepare the files although these only will be required in case the paper is conditionally accepted for publication.

I should re-iterate the standard disclaimer: A revise and resubmit decision is not a guarantee that **QE** will publish your work and I can make no promises about the final outcome. But I think the paper has sufficient promise that it makes sense to invite a revision and that it could potentially make a very nice contribution to the journal.

Many thanks for letting us consider you work, I look very much forward to seeing the next revision.

Sincerely,

Morten O. Ravn

Co-Editor