Welfare and Spending Effects of Consumption Stimulus Policies

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Using a heterogeneous agent model calibrated to match measured spending dynamics over four years following an income shock (Fagereng, Holm, and Natvik (2021)), we assess the effectiveness of three fiscal stimulus policies employed during recent recessions. Unemployment insurance (UI) extensions are the clear "bang for the buck" winner when effectiveness is measured in utility terms. Stimulus checks are second best and have two advantages (over UI): they arrive and are spent faster, and they are scalable to any desired size. A temporary (two-year) cut in the rate of wage taxation is considerably less effective than the other policies and has negligible effects in the version of our model without a multiplier.

html: https://llorracc.github.io/HAFiscal/
PDF: HAFiscal.pdf
GitHub: https://github.com/llorracc/HAFiscal

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Appendices

A Estimating discount factor distributions for different interest rates

Figure 1 shows the fit of the liquid wealth distribution for interest rates of 0.5 percent and 1.5 percent per quarter. In both cases, the estimation exactly matches the median liquid wealth to permanent income ratios for each education group listed in Panel B of Table **??**.

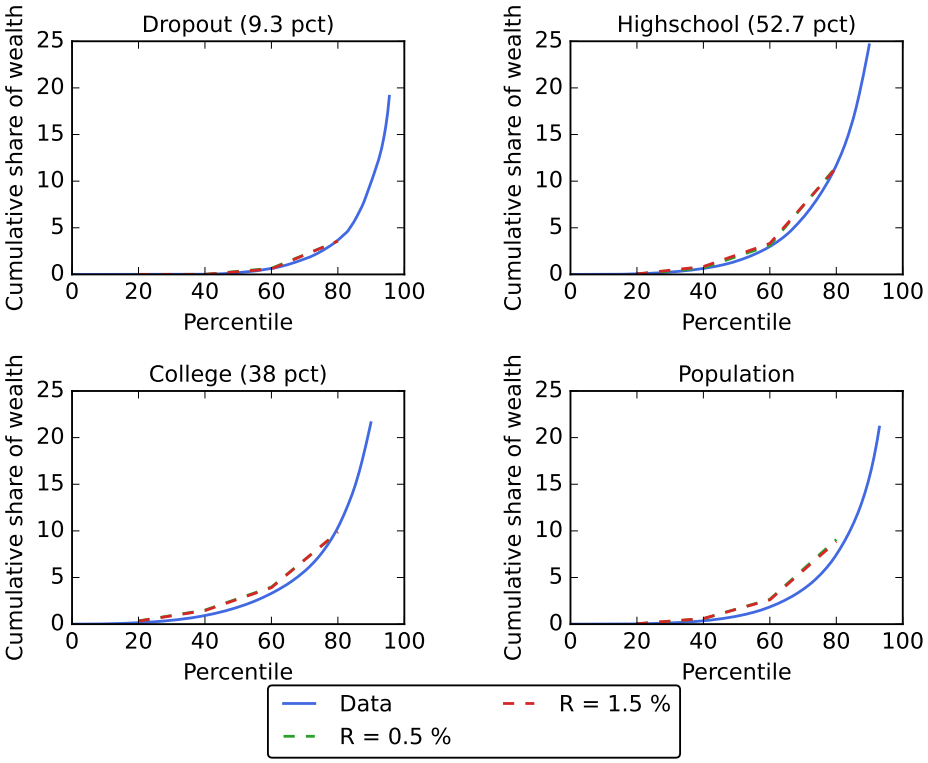

Figure 1 Distributions of liquid wealth within each educational group and for the whole population from the 2004 Survey of Consumer Finance and from the estimated model for different values of the interest rate, R.

References

Fagereng, Andreas, Martin B. Holm, and Gisle J. Natvik (2021): "MPC Heterogeneity and Household Balance Sheets," *American Economic Journal: Macroeconomics*, 13(4), 1–54.

Parker, Jonathan A (2017): "Why don't households smooth consumption? Evidence from a $25 million experiment," *American Economic Journal: Macroeconomics*, 9(4), 153–183.