

# SEBASTIAN GRAVES

OCTOBER, 2023

International Finance Division  
Federal Reserve Board  
20th St. & Constitution Ave. NW  
Washington, DC 20551

Personal Email: [sebgraves@gmail.com](mailto:sebgraves@gmail.com)  
Work Email: [sebastian.h.graves@frb.gov](mailto:sebastian.h.graves@frb.gov)  
Website: [sebgraves.com](http://sebgraves.com)  
Citizenship: UK (US Green Card)

## Current Appointments

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2023 - Senior Economist, Federal Reserve Board

## Previous Work and Research Experience

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2020 - 2023 Economist, Federal Reserve Board  
2019 Dissertation Fellow, Federal Reserve Board  
2016 - 2019 Research Assistant for Thomas Sargent and Simon Gilchrist  
2012 - 2014 Economist, European Economics Research, Goldman Sachs  
2011 Summer Intern, Bank of England

## Education

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2015 - 2020 Ph.D. in Economics, NYU  
2014 - 2015 MSc in Economics, LSE (*Distinction, Sir John Hicks Prize for Outstanding Performance*)  
2009 - 2012 BA in Economics, University of Cambridge (*First Class Honours*)

## Publications

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1. *Does Unemployment Risk Affect Business Cycle Dynamics?*

**AEJ: Macroeconomics, Conditionally Accepted**

*Abstract:* In this paper, I show that the decline in household consumption during unemployment spells depends on both liquid and illiquid asset positions. I also provide evidence that unemployment spells predict the withdrawal of illiquid assets, particularly when households have few liquid assets. Motivated by these findings, I embed endogenous unemployment risk in a two-asset heterogeneous-agent New Keynesian model. The model is consistent with the above evidence and provides a new propagation mechanism for aggregate shocks due to a flight-to-liquidity that occurs when unemployment risk rises. This mechanism implies that unemployment insurance plays an important role as an automatic stabilizer, particularly when monetary policy is constrained.

2. *The Inflationary Effects of Sectoral Reallocation*  
(with Francesco Ferrante and Matteo Iacoviello)

**Journal of Monetary Economics, Forthcoming**

*Abstract:* The COVID-19 pandemic has led to an unprecedented shift in household consumption expenditures from services to goods. This paper studies the effect of such demand reallocation in a multi-sector New Keynesian model featuring input-output linkages and frictions to increasing factor inputs in the form of hiring costs. These costs hamper the adjustment of the supply of goods in response to the shift in demand, causing inflationary pressures which propagate through the production network. The inflationary effects of the demand reallocation shock are amplified by the fact that goods prices are more flexible than those of services. We take the model to the data and estimate a version that allows for reallocation shocks, idiosyncratic productivity shocks at the sectoral level, and an aggregate labor supply shock. The demand reallocation shock can account for a large portion of the rise in U.S. inflation in the aftermath of the pandemic.

3. *The State Dependent Effectiveness of Hiring Subsidies*

**AEJ: Macroeconomics, April 2023**

*Abstract:* The responsiveness of job creation to shocks is procyclical, while the responsiveness of job destruction is countercyclical. This new finding can be explained by a heterogeneous-firm model in which hiring costs lead to lumpy employment adjustment. The model predicts that policies that aim to stimulate employment by targeting the job creation margin, such as hiring subsidies, are significantly less effective in recessions: These are times when few firms are near their hiring threshold and many firms are near their firing threshold. Policies that target the job destruction margin, such as employment protection subsidies, are particularly effective at such times.

4. *Unemployment Insurance Financing as a Uniform Payroll Tax*  
(with Jonathon Hazell, Walker Lewis and Christina Patterson)  
**AEA Papers & Proceedings, May 2022**

*Abstract:* In the United States, unemployment insurance is financed by taxes levied on employers. We develop a model to decompose UI taxes into a firing tax component, levied on firms that layoff workers, and a uniform payroll tax component, levied on all firms regardless of their layoffs. We develop a novel methodology to measure the two components and document a number of facts about the uniform payroll tax component: it is large, accounting for just under half of UI taxes, it rises significantly after recessions, and it is more cyclical in states with poorly funded UI system.

## Working Papers

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1. *The Labor Demand and Labor Supply Channels of Monetary Policy*  
(with Christopher Huckfeldt and Eric Swanson)

*Abstract:* Monetary policy is conventionally understood to influence labor demand, with little effect on labor supply. Estimating the response of labor market flows to high-frequency changes in interest rates around FOMC announcements and Fed Chair speeches, we find that a contractionary monetary policy shock leads to a significant increase in labor supply, by reducing the rate at which workers quit jobs to non-employment and stimulating job-seeking behavior among the non-employed. Holding the response of supply-driven labor market flows constant, the overall decline in employment from a contractionary monetary policy shock becomes nearly twice as large.

2. *Time Averaging Meets Labor Supplies of Heckman, Lochner, and Taber*  
(with Victoria Gregory, Lars Ljungqvist, and Thomas Sargent)

*Abstract:* We incorporate time-averaging into the canonical model of Heckman, Lochner, and Taber (1998) (HLT) to study retirement decisions, government policies, and their interaction with the aggregate labor supply elasticity. The HLT model forced all agents to retire at age 65, while our model allows them to choose career lengths. A benchmark social security system puts all of our workers at corner solutions of their career-length choice problems and lets our model reproduce HLT model outcomes. But alternative tax and social security arrangements dislodge some agents from those corners, bringing associated changes in equilibrium prices and human capital accumulation decisions. A reform that links social security benefits to age but not to employment status eliminates the implicit tax on working beyond 65. High taxes with revenues returned lump-sum keep agents off corner solutions, raising the aggregate labor supply elasticity and threatening to bring about a “dual labor market” in which many people decide not to supply labor.

## Conference and Seminar Presentations

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2023: Workshop on Empirical Monetary Economics (Sciences Po)\*, SEA Annual Meeting\*, Federal Reserve System Macro Meeting\*, MMF Annual Conference, CEBRA Annual Meeting (discussant)

2022: Bank of Finland/CEPR Conference: Monetary Policy in the Post-Pandemic Era, Cleveland Fed/ECB: Inflation: Drivers and Dynamics Conference, European Commission/CEPR Conference: The COVID-shock and the new macroeconomic landscape, Midwest Macro Conference (Spring), International Research Forum on Monetary Policy (discussant), ASSA

2020: UCSD, Northwestern (Kellogg), Rutgers, Federal Reserve Board, HEC Montréal, Federal Reserve Board External Webinar Series

2019: Federal Reserve Board, Washington University in St. Louis (EGSC), New York University

2018: Young Economist Symposium, Young Economist Symposium (discussant)

**Referee**

*AEJ: Macroeconomics; Journal of Economic Dynamics and Control; Journal of Money, Credit and Banking; Macroeconomic Dynamics; Review of Economic Dynamics; Review of Economic Studies; Review of Economics and Statistics*

**Teaching Experience**

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2020 & 2021	(Econ-181), Howard University, Project Advisor
2018	Statistics (ECON-UA 18), NYU, TA for Meixia Ruderman & Timothy Roeper
2017 (Spring)	Macroeconomics II (PhD), NYU, TA for Mark Gertler & Simon Gilchrist
2014 - 2015	Economics A (EC100), LSE, TA for Alan Manning & Mohan Bijapur

**Fellowships and Awards**

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2015 - 2020	MacCracken Fellowship, NYU
2015	Sir John Hicks Prize for Outstanding Performance in MSc Economics, LSE
2011-2012	Sir Henry Tomkinson Scholarship, Sir Arthur Arnold Scholarship, Ellen McArthur Scholarship, Lilian Knowles Prize (x2), University of Cambridge

**References**

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Simon Gilchrist	Professor of Economics	NYU	<a href="mailto:sg40@nyu.edu">sg40@nyu.edu</a>
Thomas Sargent	Professor of Economics	NYU	<a href="mailto:thomas.sargent@nyu.edu">thomas.sargent@nyu.edu</a>
Matteo Iacoviello	Senior Associate Director	Federal Reserve Board	<a href="mailto:matteo.iacoviello@frb.gov">matteo.iacoviello@frb.gov</a>