

**Discussion of
“Makeup Monetary Policy Strategies in an Unequal World”**

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Summary

- In representative-agent models, “makeup” strategies desirable to deal with ZLB
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 - ▶ Search-and-matching labor market frictions
 - ▶ Wealth in the utility function

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- **Two main results:**
 - ① Inequality weakens stabilization power of monetary policy
 - ② Makeup strategies particularly powerful with significant heterogeneity

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- **Conjecture:** Countercyclical inequality (higher in recessions)?
 - ▶ Should exploit richness of setup to explore implications beyond aggregate variables

Policy

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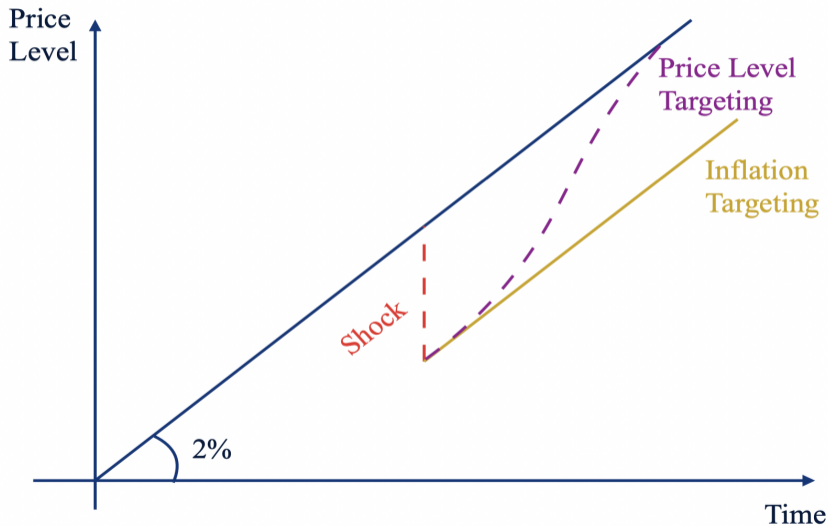
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- PLT and NGDP targeting embed expectations of “low for longer”
 - ▶ Expectations of higher future inflation in a recession
 - ▶ Lower actual real rate even when nominal rate is at ZLB
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- Makeup strategies \Rightarrow Systematize forward guidance
 - ▶ Lesson in Eggertsson and Woodford (2003) robust to introduction of heterogeneity
 - ▶ Although with a large share of true hand-to-mouth sensitivity to real rate should decline

Price Level Targeting vs. Inflation Targeting



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- **Heterogeneity** \Rightarrow **Discounting** in Euler equation (McKay, Nakamura and Steinsson, 2015)

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- But $\delta < 1$ only if inequality is procyclical (Bilbiie, 2019)
 - ▶ In which case, heterogeneity dampens effect of shocks (opposite of this paper)

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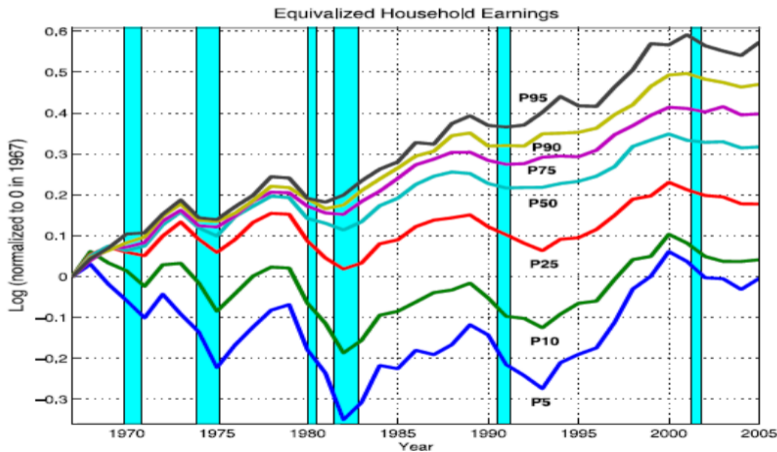


Fig. 9. Percentiles of the household earnings distribution (CPS). Shaded areas are NBER recessions.

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- Does wealth in the utility function dampen power of PLT?
 - ▶ In Bilbiie (2019), no forward guidance puzzle with countercyclical inequality and PLT
 - ▶ Makeup strategies intrinsically different from forward guidance?

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 - ▶ In particular, could investigate more relation between monetary policy and inequality
- Do makeup strategies suffer from same concern as forward guidance?
 - ▶ Makeup strategies \Rightarrow Systematic forward guidance
 - ▶ Forward guidance puzzle \Rightarrow Makeup strategies puzzle?
- Or a fundamental difference?
 - ▶ Systematic nature of makeup strategies avoids over-reaction (not a shock)?