What They Do

- Compare impact of monetary shock for RANK & HANK
  - Total initial responses of consumption
  - And a decomposition:
    - Direct effect: Hold labor income fixed
    - Indirect effect: Allow changes in labor income

- Claim: need this for “successful conduct” of policy
Contribution

- Now, lots of analyses of monetary transmission in HANK
- But, analyze rich model of consumption/savings behavior
## What They Find

<table>
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<tr>
<th></th>
<th>$d \log C/\text{dr}$</th>
<th>% Direct Effect</th>
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<tr>
<td>RANK-SW</td>
<td>$-0.7$</td>
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<td>RANK-KMV</td>
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<td>$[-1.7, -2.9]$</td>
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$SW =$ Smets-Wouters estimate for estimated model of US
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RANK-KMV elasticity 3 times larger
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HANK elasticity not necessarily larger, depends on fiscal policy
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KMV emphasize direct effect
### What They Find

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Which is large if there are few “hand to mouth” households
## What They Find

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And small if there are many “hand to mouth” households
Potential Audiences

- Business cycle analysts
- Monetary policy analysts
- Fiscal policy analysts
• Should they give up RANK?

• No, differences in aggregate predictions too small
Predictable from SW Results

GDP, US Data and Contribution of Monetary Shocks

Only Monetary Shocks On

US GDP
Monetary Policy Analysts

• Should they give up RANK?

• Possibly, but KMV need to show
  • If DGP is HANK, RANK users will be unsuccessful
    • HANK with many HtMs is useful abstraction
RANK Unsuccessful?

- Trade-offs RANK might miss
  - Size versus persistence of shock
  - Inflation versus output

But, results surprisingly similar and hard to detect!
Is HANK-KMV a Useful Abstraction?

• Key assumptions:
  ○ Scarce liquidity
  ○ High transaction costs
  ○ Fed Funds is relevant interest rate

How realistic?
# Scarce Liquidity? No

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<tr>
<td>Net Worth</td>
<td>3.47</td>
<td>4.56</td>
</tr>
<tr>
<td>Liabilities</td>
<td>.80</td>
<td>.90</td>
</tr>
<tr>
<td>Real estate</td>
<td>1.71</td>
<td>1.71</td>
</tr>
<tr>
<td>Business</td>
<td>.59</td>
<td>.59</td>
</tr>
<tr>
<td>Durables</td>
<td>.33</td>
<td>.34</td>
</tr>
<tr>
<td>LI &amp; Pensions</td>
<td>–</td>
<td>1.11</td>
</tr>
<tr>
<td>Deposits</td>
<td>.47</td>
<td>.48</td>
</tr>
<tr>
<td>Bonds</td>
<td>.13</td>
<td>.40</td>
</tr>
<tr>
<td>Stocks</td>
<td>1.03</td>
<td>.80</td>
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<tr>
<td>Liquid assets?</td>
<td>.26</td>
<td>1.68</td>
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Scarce Liquidity? No

- And more liquidity from borrowing against:
  - Home equity
  - Business equity
  - Life insurance and pension assets
High Transaction Costs? No

- Exchange-traded funds (ETF)
  - No fees
  - 1 share minimum
Why are Households on Corners?
Why are Households on Corners?

- One major reason is college financial aid
  - 70% of full-time students receive aid
  - 46% of student budget covered
- House, pensions, business not counted on FAFSA
  ⇒ Optimal to look as if hand to mouth
Fed Funds Rate Relevant? Not likely

- Relevant rates:
  - Credit cards
  - Personal loans

  which barely move in response to Fed actions
Fed Funds Rate Relevant? Not likely

Interest Rates
Fiscal Policy Analysts

- Quantitative results depend on fiscal policy

- Specifically, how is budget balanced?
  - Transfers?
  - Debt?
  - Distortionary taxes?
Fiscal Policy Analysts

- Should they give up RANK?

- Possibly in favor of RA or, better yet, HA
Fiscal Policy Analysts

- Should they give up RANK?
- Possibly in favor of RA or, better yet, HA
- KMV could consider new title:

  Fiscal Policy According to HA
Main Recommendations

- If stick with HANK ...

- Show
  - If DGP is HANK, RANK users will be unsuccessful
  - HANK with many HtMs is useful abstraction

- Clarify
  - What successful conduct of monetary policy means
  - Why knowing direct/indirect split is essential