

LUMPY DURABLE CONSUMPTION DEMAND AND THE LIMITED AMMUNITION OF MONETARY POLICY

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WHAT'S IN THE PAPER?

What They Do

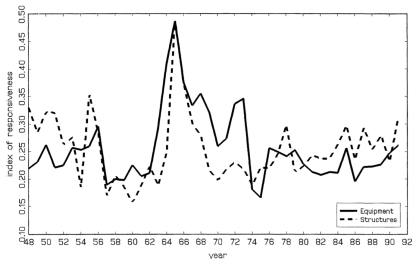
- ▶ Lay out a micro-macro model of durable consumption adjustment
- ▶ Quantify the model, including bells & whistles, and match total + extensive durables IRFs better than baseline models
- ▶ Conduct monetary policy experiments with current + future rates

What They Find

- ▶ Future rates matter less, so forward guidance is less powerful.
- ▶ Policy history matters, so there's a motive to keep powder dry.
- ▶ State dependence or procyclical monetary policy efficacy obtains.

REINVIGORATING A CLASSIC IDEA

From Caballero & Engel (1999) ECMA:



Time Variation in Responsiveness

- ▶ Fixed adj. costs → fewer extensive margin adjustments during busts
- ▶ Lower shock responsiveness during busts, i.e., nonlinearities
- ▶ Many later applications to investment and consumption

This Paper

Brings the idea to monetary policy through durables, and brings a nuanced focus on policy history rather than variation over the cycle itself.

WHY DURABLES & MONETARY POL.?

Imagine copying/pasting “investment” for “durables” and/or “fiscal” for “monetary?” What would change, and do we care?

- ▶ Parallels in lumpiness and history dependence are obvious, and robustness would make the paper’s points even more broadly useful.
- ▶ But not everything is similar across contexts:
 - ▶ Fiscal policy lacks a ZLB. So keeping the powder dry may matter less.
 - ▶ Micro details differ substantially across HH’s vs firms. So the lessons might not quantitatively generalize.

Takeaway

Given the potential importance of time variation in policy efficacy, guidance on the generality of these conclusions would be useful.

DO THE BELLS & WHISTLES MATTER?

Paper with fixed adjustment costs commonly use bells and whistles to get the facts right. A partial list would include:

- ▶ Stochastic fixed costs
- ▶ Free maintenance investment
- ▶ Exotic adjustment cost distributions
- ▶ Linkages across goods or units or sectors in adjustment

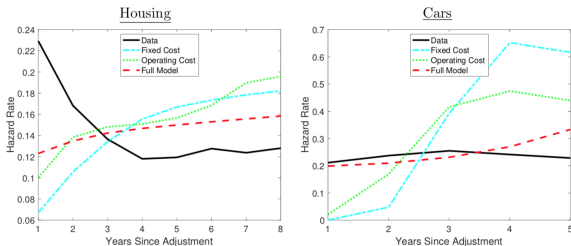
This paper naturally includes bells and whistles as well:

- ▶ Operating costs of durables → stability in the user cost of durables
- ▶ Match quality shocks → smooth extensive margin variation

Two Natural Questions

Are they reasonable at the micro level, and do they matter for macro?

DO THE BELLS & WHISTLES MATTER?



- ▶ Match quality shocks flatten adjustment hazards by forcing adjustment in an iid fashion, which is reasonable.
- ▶ They intuitively relate to job loss (housing) or maintenance/taste variation (TV's, cars), which is reasonable.
- ▶ But 75% of adjustment comes from such channels, and they do matter for the magnitude of consumption IRFs at the macro level.

Would be useful to know:

How much would HH's pay to avoid these shocks by, e.g., driving a car without AC or fixing up their house? Does this vary across the cycle?

HOW IMPORTANT IS THE FINANCIAL STRUCTURE HERE?

The paper's mechanism requires mass substitution by HH's across durables purchases today vs tomorrow after monetary policy shocks.

- ▶ Doing so requires financial capacity for many households, so the financial details may matter quantitatively.
- ▶ Paper includes a single liquid financial asset.
- ▶ Paper also includes an LTV constraint on durables expressed in terms of borrowing in the liquid financial asset.
- ▶ Both are reasonable choices, but they differ meaningfully from other HANK-style frameworks.

Would be useful to know:

How many HH's are super rich? Would the MPC distribution look reasonable given the lack of an illiquid financial asset?

WRAPPING UP

- ▶ This is a great paper skillfully targeting a big question.
- ▶ It's unusual to see original takes on classic ideas, but this paper delivers exactly that.
- ▶ Using their existing model framework, the authors are well placed to quickly provide further insights relating to each of my questions.