Discussion:

"Inequality, Business Cycles, and Monetary-Fiscal Policy"

by Bhandari, Evans, Golosov and Sargent

Petr Sedláček

University of Oxford

Money Macro Workshop 2019

Inequality and *optimal* policy response

What this paper does:

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- filename: begs2_ecma.pdf

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Main idea of numerical method (roughly)

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- extends to higher-orders
- can capture non-linearities/effect of uncertainty etc

Relation to existing methods?

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- today's solution uses original equations
- i.e. including all non-linearities/uncertainty effects etc.

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Levintal (2018): "Taylor projections"

- type of projection method, but considerably faster
- does not suffer from curse of dimensionality

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- perhaps this is the main contribution of proposed method
- are there synergies between the methods?

Model

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  - how important is this part of the distribution for the results?

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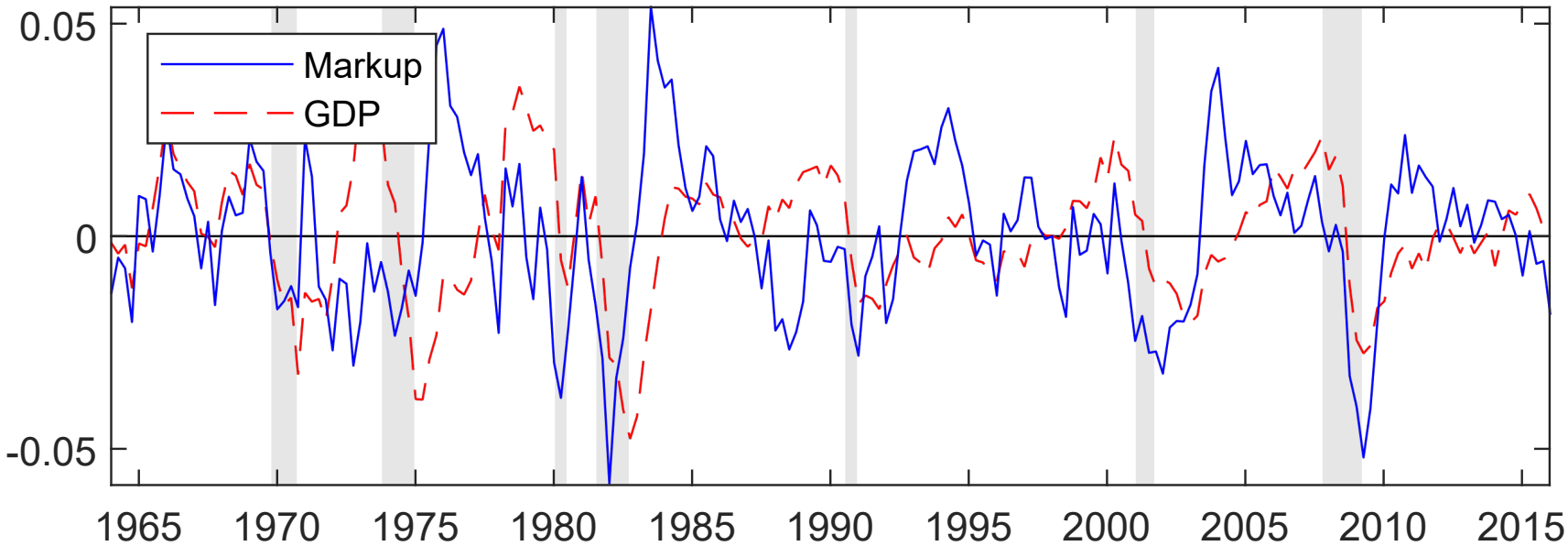

(a) Price Markup

Source: Born, Pfeifer (2019).

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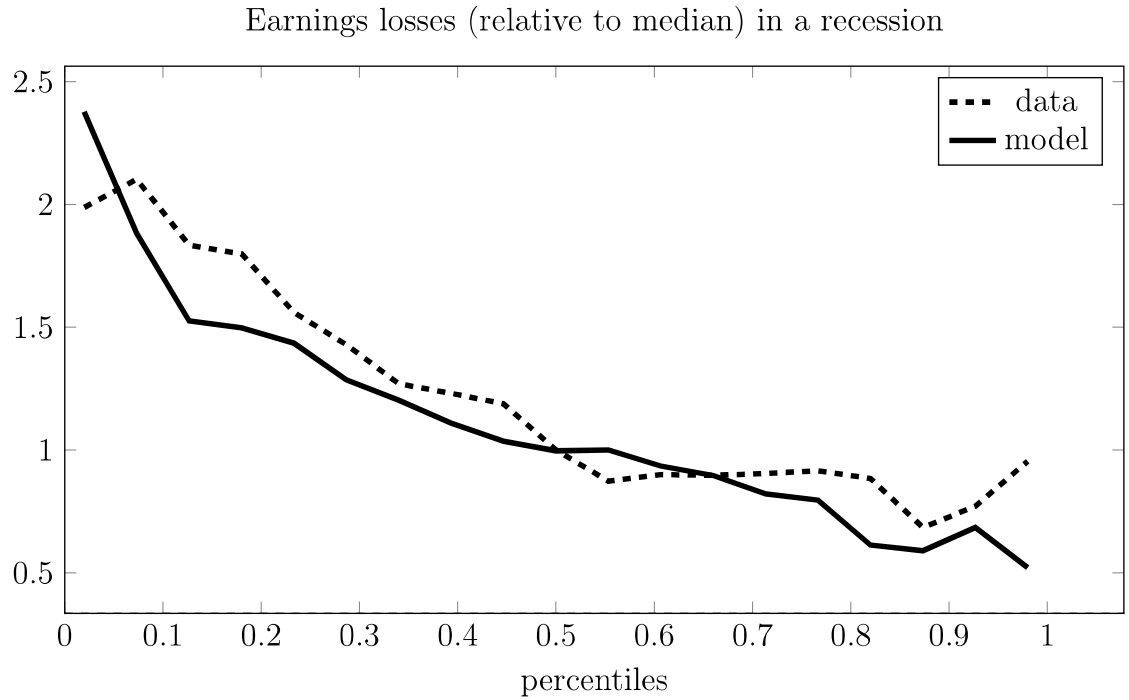

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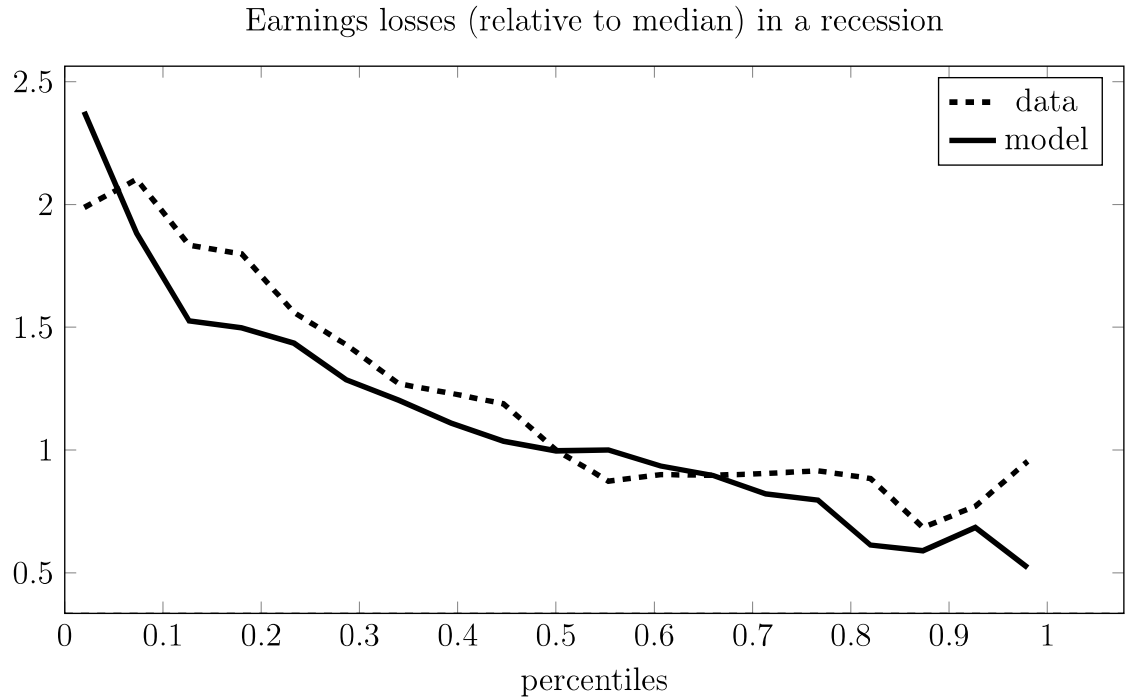

- does this imply equivalent "earnings gains" in booms?
- is this overstating insurance motive?

Quantitative evaluation: price stabilization vs insurance

Price stabilization: calibration based on Philips curve slope

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  - moreover, welfare costs lower in Rotemberg compared to Calvo
    - even though same 1st order approx. (Lombardo, Vestin, 2008)

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- could even think about business cycle variation (Vavra, 2014)

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- this hurts insurance!

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- instead, lowering $\overline{G}$ might not have such distributional effects

Policies: permanent impact of markup shock?

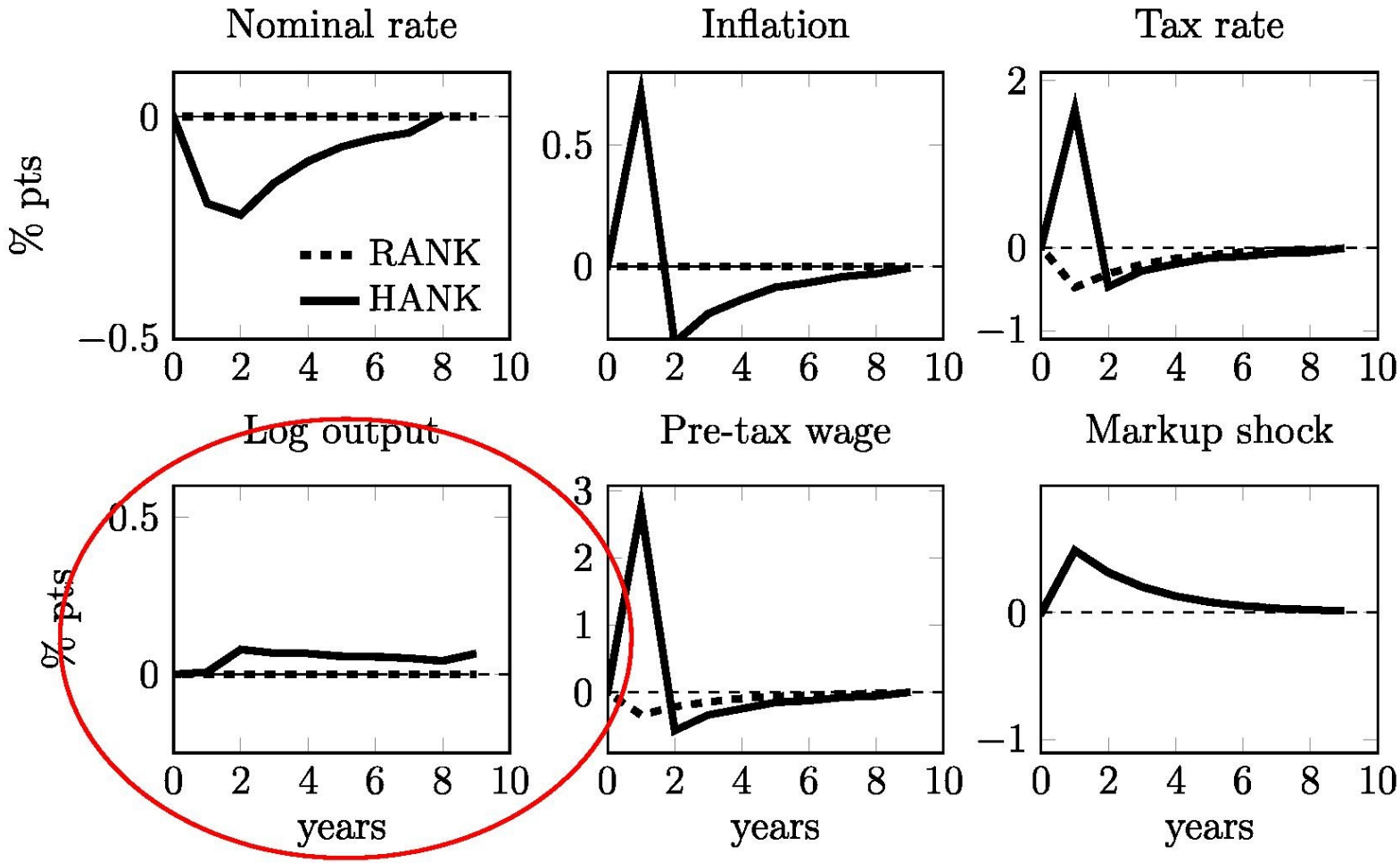

Figure III: Optimal monetary-fiscal response to a markup shock

Small stuff

- calibration of markup shock from Smets, Wouters (2007)
  - that estimation is of course model-specific
  - why not match markups instead?
- typo in 1st paragraph on p. 20
- discussion of other policy tools (e.g. corporate taxes)?
- how big are the welfare losses of Taylor rules?