HOUSEHOLD BALANCE SHEETS AND MONETARY POLICY

Aditya Aladagady (Federal Reserve Board)

DISCUSSION

By Yuriy Gorodnichenko (UC Berkeley)
WHAT IS THE TRANSMISSION MECHANISM OF MONETARY POLICY?

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  o Interest rate sensitivity of durables (consumption and investment)
  o Management of expectations
  o Financial accelerator
  o Wealth/Balance sheet effects
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    ▪ Merge micro (confidential CEX) and macro data
• Main results:
  o Heterogonous effects of nominal shocks on house prices across MSAs.
  o Marginal propensity to consume out of housing (MPCH) is 0.06.
  o MPCH is higher for constrained households.
IDENTIFICATION OF PROPENSITY TO CONSUME OUT OF HOUSING

Starting point:
Consumption: \( \Delta C_{it} = \beta_1 \Delta Q_{it} + \beta_2 MP_t + \text{error} \)
House price: \( \Delta Q_{it} = \gamma_1 MP_t + \text{error} \)
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House price: \( \Delta Q_{it} = (\gamma_1 + \gamma_2 Z_i) \times MP_t + error \)

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What’s \( Z_i \)?
- Availability of land (Saiz 2010)
- Index of regulations (Wharton)
Identification of Propensity to Consume out of Housing (II)

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Restrictions and caveats:
- $Z_i$ does not affect consumption growth (exclusion restriction)
The graph shows a positive correlation between mean D(house price) and Land-use for various cities across different states. The cities include:

- Atlanta, Georgia
- Boston, Massachusetts
- Cleveland, Ohio
- Chicago, Illinois
- Charlotte, North Carolina
- Dallas, Texas
- Detroit, Michigan
- Denver, Colorado
- Las Vegas, Nevada
- Los Angeles, California
- San Diego, California
- San Francisco, California
- Portland, Oregon
- Seattle, Washington
- Miami, Florida
- Washington D.C.
- Minneapolis, Minnesota
- Chicago, Illinois
- New York
- Phoenix, Arizona
- Nashville, Tennessee

The graph indicates that as Land-use increases, the mean D(house price) also tends to increase, suggesting a direct relationship between these two variables.
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• We cannot identify \( \gamma_1 \) and so only relative effects are identified
  - In a closed economy, shocks to asset prices can be zero-sum.
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- Dynamic response: need to include lags of \( \Delta C_{it} \) and \( \Delta Q_{it} \) on RHS.
SUMMARY

- Great question

- Creative combination of micro and macro data

- Iron out a few wrinkles