Who Gets Jobs Matters: Monetary Policy and the Labour Market

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The views are our own.

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The distribution of wealth and the riskiness of income matter for macroeconomic fluctuations in HANK models (Kaplan, Moll, Violante (2018))

For most households, labour income is the main source of income

Labour markets are segmented and do not always move in the same way - it matters, \textit{where} on the labour market one is

In a NK framework, where output is demand-determined in the short run, labour market situation in a particular segment may also matter for aggregate outcomes, because MPCs differ
Empirical evidence

Net hires from persistent non-employment

Hires less Separations to NonE

Date

2000q1 2004q3 2009q1 2013q3 2018q1

Less than high school
High school or equivalent, no college
Some college or Associate degree
Bachelor's degree or advanced degree

UH, ML (Goethe, ECB)

Monetary policy and labour market

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Empirical evidence

Wage rigidity (% reporting no change over past year)

Nominal wage rigidity

Less than high school
High school or equivalent, no college
Some college or Associate degree
Bachelor's degree or advanced degree

1980q1 1990q1 2000q1 2010q1 2020q1

UH, ML (Goethe, ECB)
To capture the empirical facts, we build the model that is:

- **New Keynesian** (sticky prices, wages) ⇒ Role for monetary policy
- **Search and matching** framework ⇒ Role for labour supply, labour demand, wage rigidity, unemployment
- **Labour market segmentation** ⇒ Role for different groups
- **Incomplete markets** and an occasionally binding constraint ⇒ Role for precautionary savings, marginal propensities to consume, risk

We then examine the implications of this setup for monetary policy.
Monetary policy shock - aggregates

Output (Consumption)

Labour

Dividends

Total labour income (pre-tax)

Flexible wages
Sticky wages – all
Sticky wages – poor
Monetary policy shock - by groups, labour market

- Labour income
  - Poor
  - Middle
  - Rich
- Tightness
- Prob.−worker

Flexible wages
Sticky wages − all
Sticky wages − poor
Monetary policy shock - by groups

Results

Asymmetric model

Monetary policy shock - by groups