Who Gets Jobs Matters: Monetary Policy and the Labour Market

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The views are our own.

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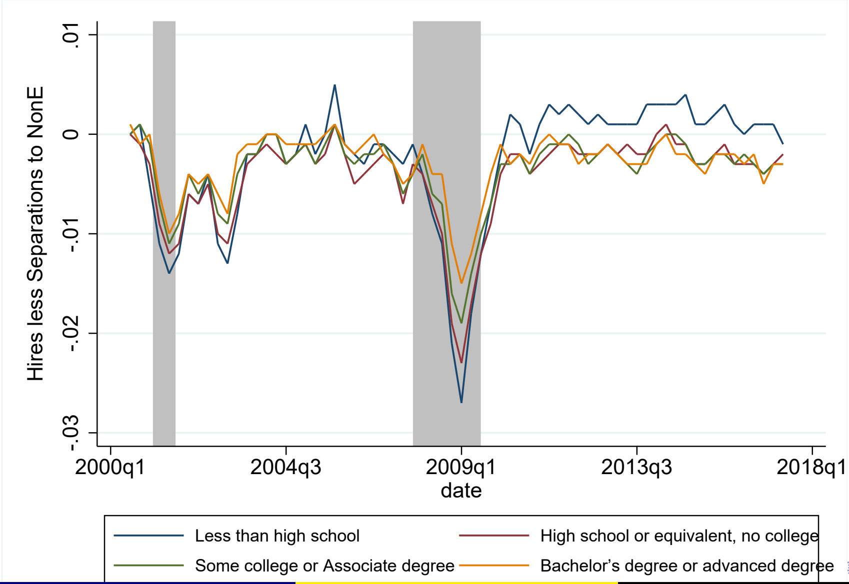
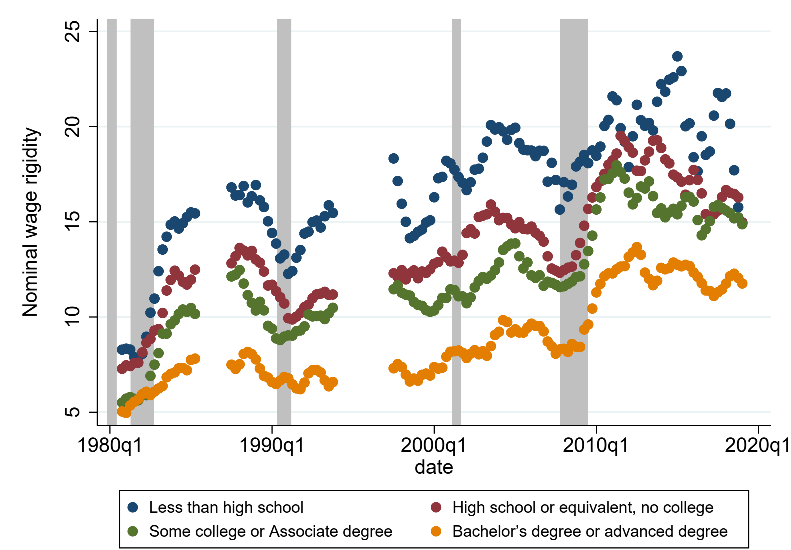
Motivation

- 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, *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

Net hires from persistent non-employment



Wage rigidity (% reporting no change over past year)



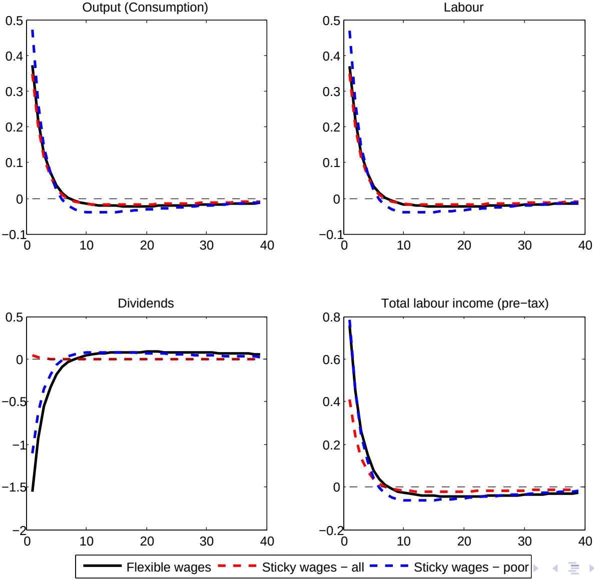
Model ingredients

To capture the empirical facts, we build the model that is:

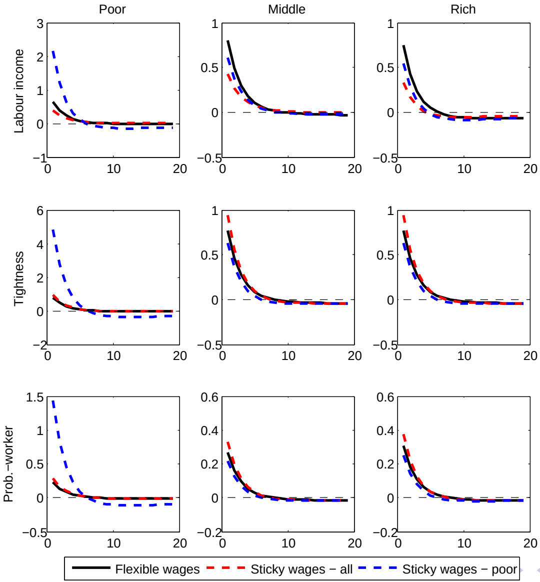
- **New Keynesian** (sticky prices, wages) $\Rightarrow$ Role for monetary policy
- **Search and matching** framework $\Rightarrow$ Role for labour supply, labour demand, wage rigidity, unemployment
- **Labour market segmentation** $\Rightarrow$ Role for different groups
- **Incomplete markets** and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

We then examine the implications of this setup for monetary policy.

Monetary policy shock - aggregates



Monetary policy shock - by groups, labour market



Monetary policy shock - by groups