

REAL RIGIDITIES, FIRM DYNAMICS AND MONETARY NON-NEUTRALITY: ROLE OF DEMAND SHOCKS

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SUMMARY OF PAPER

A recurrent challenge in macro is how to generate sizable real responses to nominal shocks.

- ▶ To generate monetary non-neutrality:

nominal rigidities +

- ▶ Klenow and Willis (2016): to match the empirical distribution of price changes \Rightarrow unrealistically large productivity shocks
- ▶ This paper emphasizes the role of demand shocks in reconciling theory and empirics
- ▶ Proposes a menu cost model à la Golosov and Lucas (2007)
 - ▶ With Kimball aggregator and idiosyncratic demand shocks
 - ▶ Calibrated to match firm-level (rather than price) data
- ▶ The model exhibits substantial monetary non-neutrality

INTUITION

- ▶ Monetary non-neutrality results from a contained response of the aggregate price level.

- ▶ In a menu cost model, this follows from:

- (i) Low share of prices adjusting

- This can be done exogenously (nominal rigidities) or endogenously (through strategic complementarities)

- (ii) Small size of price adjustments

- This can be done by introducing random menu costs to weaken the **selection effect**

- ▶ A Kimball demand system is well-known to work through (i)
- ▶ **NEW:** Kimball demand system also works through (ii).

SOME REMARKS

Great paper: very important question, intuitive mechanism & neat implementation

Summary of my comments

1. The role of the Kimball aggregator
 - 1.1 Alternative ways of generating variable price elasticity of demand
 - 1.2 How far does incomplete pass-through take us?
2. Other minor comments.

MAIN: BEYOND THE KIMBALL AGGREGATOR

GENERATING VARIABLE PRICE ELASTICITY

- ▶ Both the strategic complementarities and the positive demand pass-through result from a variable price elasticity that is
 - * Increasing in the relative price
 - * Decreasing in idiosyncratic demand
 - * Decreasing in (effective) market share
- ▶ The Kimball aggregator is only one particular demand specification which generates a variable price elasticity
 - * Alternatives include: Pollak's additive utility, addilog preferences, quadratic mean of order r (QMOR) preferences

To what extent is result generalizable?

MAIN: BEYOND THE KIMBALL AGGREGATOR

HOW FAR CAN INCOMPLETE PASS-THROUGH TAKE US?

- ▶ Missing alternative calibration: Kimball with productivity shocks calibrated using firm-level data
- ▶ Consider other modelling approaches able to generate incomplete pass-through with CES demand:
 - * For example: oligopolistic competition, additive distribution costs
 - * Can random menu cost shocks offset zero demand pass-through?

In my view, focus should be on incomplete cost pass-through and idiosyncratic shocks

How far can each of these ingredients take us separately?

OTHER MINOR COMMENTS

- ▶ Proposed model does a better job at matching average and standard deviations of price changes than alternatives
 - * At the expense of worsening the match of share of upward adjustments.
- ▶ Why not include empirical counterpart of the hazard function in Figure 5?
- ▶ Shocks in supply and demand are orthogonal. What if we relax this assumption?