

Discussion:  
**Monetary Policy during a Cost-of-Living Crisis**  
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# Extremely timely paper!

**Christine Lagarde** (20 September 2022, Frankfurt):

*“Inflation is being caused by a series of unprecedented shocks [. . .]. And our policy response will need to account for the special combination of shocks that we are facing in the Euro area.”*

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⇒ allows for . . .

- . . . sector-specific inflation and propagation
- . . . and heterogeneous impact on households across the wealth distribution

# Sectoral supply shocks

*“The first shock was the pandemic. Pandemic-related supply bottlenecks and rising prices have reinforced each other, with firms reacting to the threat of shortages by ordering more and earlier.”*

*“The second shock has been Russia’s unjustifiable invasion of Ukraine. [. . .] the invasion has hugely aggravated the supply squeeze and sent energy prices to extraordinary levels.”*

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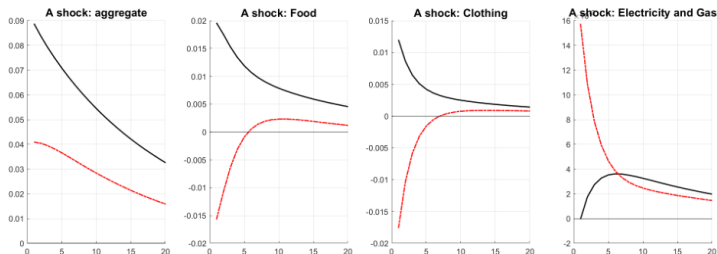
## **Model can capture this:**

- ▶ multiple sectors (each with their own supply shock)
- ▶ extensions (implemented?): input-output structure between sectors

# Sectoral supply shocks

Results: Which sector is hit by a shock matters for ...

(1) aggregate inflation and output gap

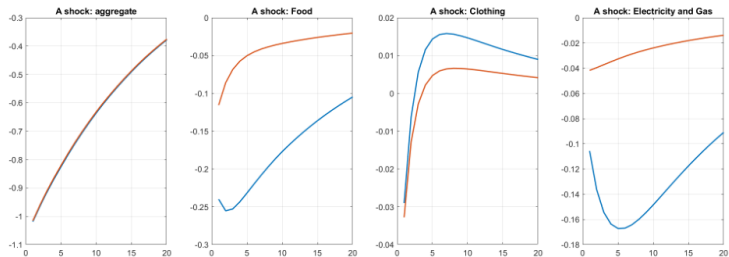




# Sectoral supply shocks

Results: Which sector is hit by a shock matters for . . .

- (1) aggregate inflation and output gap
- (2) who bears the cost of the shock



## Fiscal policy

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- ▶ important in general: effects of monetary policy depend on fiscal policy in HANK!
- ▶ important in this episode in particular:
  - ▶ large fiscal stimulus packages during pandemic,
  - ▶ (targeted) subsidies to households to deal with energy prices,
  - ▶ etc.

# Final (ultimate?) question

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- ▶ How?
- ▶ What is the optimal monetary policy as a function of the type of shock we are facing?



# Summary

- ▶ extremely timely paper!
- ▶ can capture a lot of crucial features of current situation
- ▶ extensions:
  - ▶ role of fiscal policy
  - ▶ optimal policy as function of type of shock?

Thank you very much!