

You are kindly invited to attend an online Joint Macroeconomic Seminar co-organised by the National Bank of Belgium and the Belgian universities (KU Leuven, UAntwerpen, UCLouvain, UGent, ULB, ULiège, UNamur and VUB).

by

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on

Aggregate-Demand Amplification of Supply Disruptions: The Entry-Exit Multiplier

(co-authored with Marc J. Melitz)

Abstract

The response of entry and exit to adverse supply shocks, such as COVID-19, is amplified by nominal rigidities. This leads to further amplification in the response of aggregate demand. Firms' inability to adjust their prices induces further changes in profitability that engender additional entry-exit dynamics. These changes in net entry, in turn, amplify the initial response to the shock by generating additional curvature in the relationship between the shock and aggregate demand. Even in our baseline model with efficient equilibrium entry, this entry-exit multiplier triggers a substantial magnification of the welfare losses due to a negative shock through these second-order effects. Nominal rigidities may also induce a first-order effect when entry is no longer efficient. Our model highlights how the addition of endogenous entry to a benchmark New Keynesian model radically changes the consequences of nominal rigidities. We focus on the amplification of aggregate demand to supply shocks, but also highlight other key divergences that can potentially resolve some empirical discrepancies associated with the workhorse New-Keynesian model.

The webinar will **exceptionally** take place on **Tuesday, March 23rd, 2021** from **16:30** until **18:00** via a Microsoft Teams meeting.

Please reply by email to nbbmacro.seminar@nbb.be if you wish to participate to this webinar or if you want to have an appointment with the speaker. After registration you will receive a confirmation email with *the link to join the webinar*.

Kind regards,

Peter Claeys (VUB), Pierrick Clerc (ULiège), Ferre De Graeve (KU Leuven), Romain Houssa (UNamur), Robert Kollmann (ULB), Yasin Kursat Önder (UGent), Luca Pensieroso (UCLouvain), Roland Winkler (UAntwerpen) and Raf Wouters (NBB)