A Benefit of Monetary Policy Response to Inequality

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Abstract

The main objective of this paper is to investigate a monetary policy response to inequality in a Two-Agent New Keynesian (TANK) model with hand-to-mouth households.
I derive the analytical condition for equilibrium determinacy and show that a monetary policy response to inequality is helpful in achieving equilibrium determinacy.
On the other hand, the impulse responses to structural shocks show that a monetary policy response to inequality does not necessarily reduce the volatilities of both inflation and output, although it mitigates the volatility of inequality.

Keywords: Inequality; monetary policy; TANK; hand-to-mouth; equilibrium indeterminacy

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