Countercyclical Fiscal Multipliers According to HANK

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Abstract

This paper emphasizes the role of household heterogeneity in the transmission of shocks to government expenditure in a Heterogeneous Agent New Keynesian (HANK) model. In particular, I investigate the aggregate and distributional effects of changes in government consumption and fiscal transfers, and evaluate if these effects vary according to the state of the economy. My findings indicate that household heterogeneity generates significant differences in fiscal multipliers and impulse responses of aggregate variables. For both shocks, I find that multipliers are generally higher when the shock hits in a recession. Key driver of these results is the countercyclicality of the fraction of hand-to-mouth households. This leads to significant differences in the distributions of the marginal propensity to consume across the population, and ultimately to differences in the reactions of aggregate variables.

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