2021 BSP International Research Fair
13-14 July 2021

Stay at Home! Macroeconomic Effects of Pandemic-Induced Job Separation Shocks

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Discussion

Summary

- Paper examines how monetary policy responses impact the severity of pandemic-induced job separation shocks
- Model made use of uncertainty in job separation rate (JSR).

Finding

- Uncertainty in job separation during the pandemic increased by 42% relative to the period prior to pandemic
- Severity of the pandemic-induced job separation shock is more pronounced when the monetary authority cares about either inflation or output deviations (not both).
- Could result to high inflation, slow economic growth and steadily high unemployment

Comments/Questions

- Paper is good example of research work – introducing innovation and not simply replicating
  - ➢ Introduced uncertainty to the JSR

- Clarification on the precautionary savings channel
  - ➢ Uncertainty increases precautionary behaviour of households, thus lower interest rate and lower consumption.

    Lower interest rates raises present value of job match and raises employment and output→ expansionary on supply side.

    Lower consumption → contractionary on the demand side.

    Which channel would have a greater impact?

Comments/Questions

$$C_t + \frac{B_t}{P_t R_t} = \frac{B_{t-1}}{P_t} + w_t N_t + \phi(1 - N_t) + d_t + T_t \qquad \forall t \geq 0, \qquad (4)$$

- Lump-sum tax, **T, is on the right side with positive sign – what is the intuition?**
- Government finances the fixed unemployment benefit through lump-sum taxes.

$$\phi\,(1 - N_t) = T_t$$

Yet both terms are on the right side of the equation.

Again, what is the intuition?

Comments/Questions

Impact of uncertainty shock on business investment

- Model did not include endogenous capital accumulation and could not examine the effects of pandemic-induced JSR uncertainty shocks on business investment.
- However, the option-value channel may also work for investment, that is, increases in uncertainty could lead to a decline in investment expenditures.

Would that be true for your framework?

Is the addition of an endogenous capital accumulation something that can be considered in your future research work?

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