

Kostas Mavromatis, Departmental Seminar, June 12, 2023 (Host: Joep Lustenhouwer)

Title: **Optimal Conventional and Unconventional Monetary Policy Mix**

Abstract:

We consider a dynamic stochastic general equilibrium model with three types of agents (savers, borrowers, and renters) and housing to analyze the optimal mix of conventional and unconventional monetary policy in normal times. The long rate differs from the short rate due to portfolio costs and affects aggregate demand directly through its partial pass-through to mortgage rates on borrowers. We characterize optimal monetary policy in a simple version of the model and show that the presence of heterogeneity (and exuberance shocks on house prices) generates a crucial role for affecting the long rate along with the short rate, in order to minimize inflation and/or output variability. This however comes at the expense of widening the asymmetries in the responses of private consumption of the different agent types. We show that the type of shock (e.g. demand or supply) is crucial in the decision of the central bank to steepen or flatten the yield curve.

*joint with: Serdar Kabaca (Bank of Canada) and Sami Alpanda (University of Central Florida)