

Monetary Policy with Racial Inequality (1/2)

Table 1: Summary

| | Overall | White | Asian | Hispanic | Black |
|--|---------|-------|-------|----------|-------|
| (a) Unemployment Rate (%) | | | | | |
| Mean | 6.29 | 5.53 | 4.90 | 8.75 | 11.80 |
| S.D. | 1.70 | 1.56 | 2.05 | 2.50 | 3.12 |
| (b) Hand-to-Mouth (%) | | | | | |
| Total H2M | 30.3 | 24.9 | 31.2 | 51.8 | 44.2 |
| Poor H2M | 10.7 | 6.7 | 12.5 | 28.7 | 18.8 |
| Wealthy H2M | 19.7 | 18.2 | 18.7 | 23.1 | 25.5 |
| (c) Effects of -25bp Monetary Policy Shock | | | | | |
| $\Delta UR(pp)$ | -0.35 | -0.27 | -0.24 | -0.58 | -0.61 |
| $\Delta C(\%)$ | 0.401 | 0.347 | 0.460 | 0.633 | 0.629 |
| $\Delta Welfare(CEV\%)$ | 0.043 | 0.015 | 0.108 | 0.292 | 0.313 |
| (d) Effects of Accommodative Monetary Policy Rule | | | | | |
| $\Delta S.D. \text{ of } UR(\%)$ | -10.0 | -10.0 | -10.1 | -10.3 | -9.8 |
| $\Delta S.D. \text{ of } C(\%)$ | -4.9 | -2.6 | -8.1 | -9.2 | -8.9 |

What I Do

- Document various dimensions of racial inequality.
 - Black and Hispanic workers face a higher level and volatility of the unemployment rate (Table 1(a)).
 - High proportion of (poor and wealthy) hand-to-mouth among Blacks and Hispanics (Table 1(b)). (Following the definition of poor and wealthy hand-to-mouth by Kaplan et al. (2014))
 - 44% of Black households and 52% of Hispanic households are hand-to-mouth.
- Build a heterogeneous-agent New-Keynesian (HANK) model featuring racial inequality.
 - Use the calibrated model to study how monetary policy affects different racial groups differently.

Monetary Policy with Racial Inequality (2/2)

Figure 1: Unemployment Rate Response

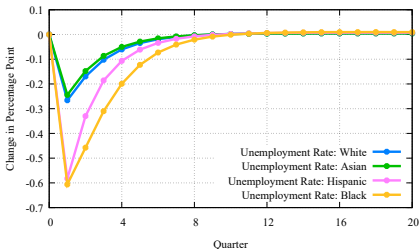
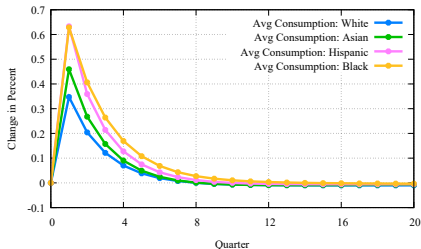


Figure 2: Consumption Response



What I Find

- Accommodative monetary policy shock (25bp rate cut) benefits Black and Hispanic workers significantly more than (middle-class) White workers.
 - Black unemployment rate (UR) declines more than White UR (Figure 1) (Consistent with the empirical finding of Bartscher et al. (2021))
 - Black workers enjoy a larger consumption gain as more of them are hand-to-mouth (Figure 2).
 - Welfare gains of Black workers is 20 times larger than that of White workers (Table 1(c)).
- Under more accommodative monetary policy, consumption volatility of Black and Hispanic workers drops 9%, while that of (middle-class) Whites declines by 2.6% (Table 1(d)).
 - Due to a larger proportion of hand-to-mouth among racial minorities.