

Wealth Distribution and Monetary Policy

Zeynep Kantur

Baskent University, Turkey
zeynepkantur@baskent.edu.tr

Ludmila Fadejeva

Latvijas Banka, Latvia
ludmila.fadejeva@bank.lv

Abstract:

We observe differences in net wealth distribution by age among European countries. Western EU countries' net wealth distribution is consistent with the life cycle hypothesis. However in Eastern EU countries, wealth distribution is skewed towards younger ages. The aim of the paper is twofold: first we study the characteristics of economies leading to differences in net wealth distribution by age; second, we evaluate the impact of these differences on the transmission of monetary policy. To do so, we develop a modified New Keynesian model where the demand side is represented by a multi-period overlapping generations setup and the supply side of the economy follows a New Keynesian framework. The model is used to analyze the interaction between monetary policy and wealth accumulation originated by demographics and productivity-gap among generations in a coherent general equilibrium model. Household Finance and Consumption Survey (HFCS) database is used to calibrate the model for two groups of European countries. We find that the shape of net wealth distribution by age has an important bearing on the effectiveness and hence conduct of monetary policy.

Keywords: Overlapping Generations Model, New Keynesian Model, Wealth Distribution, Monetary Policy

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