

# Monetary Policy in Times of Structural Reallocation

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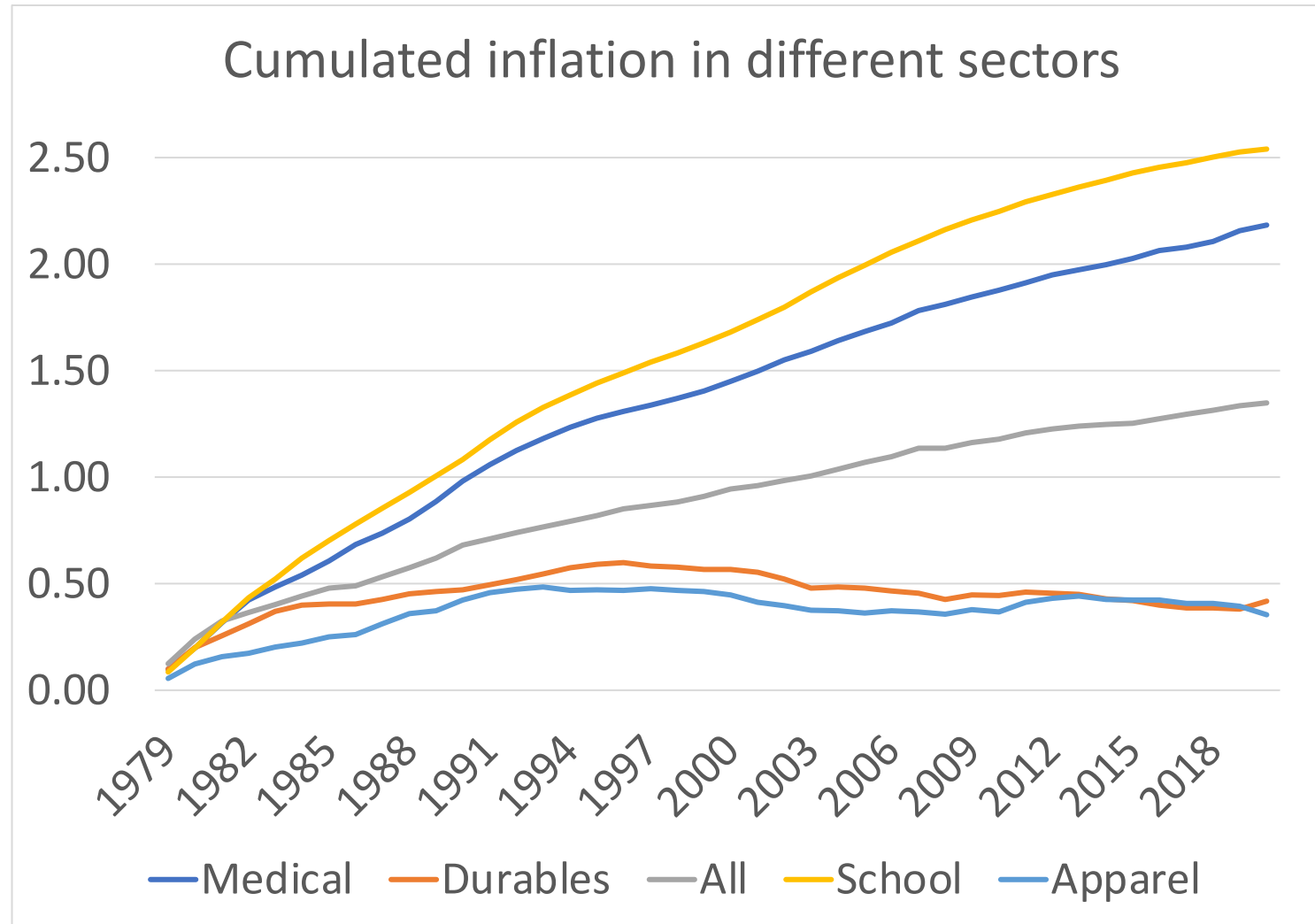
*Jackson Hole Economic Policy Symposium 2021*

# Uneven shocks and reallocation

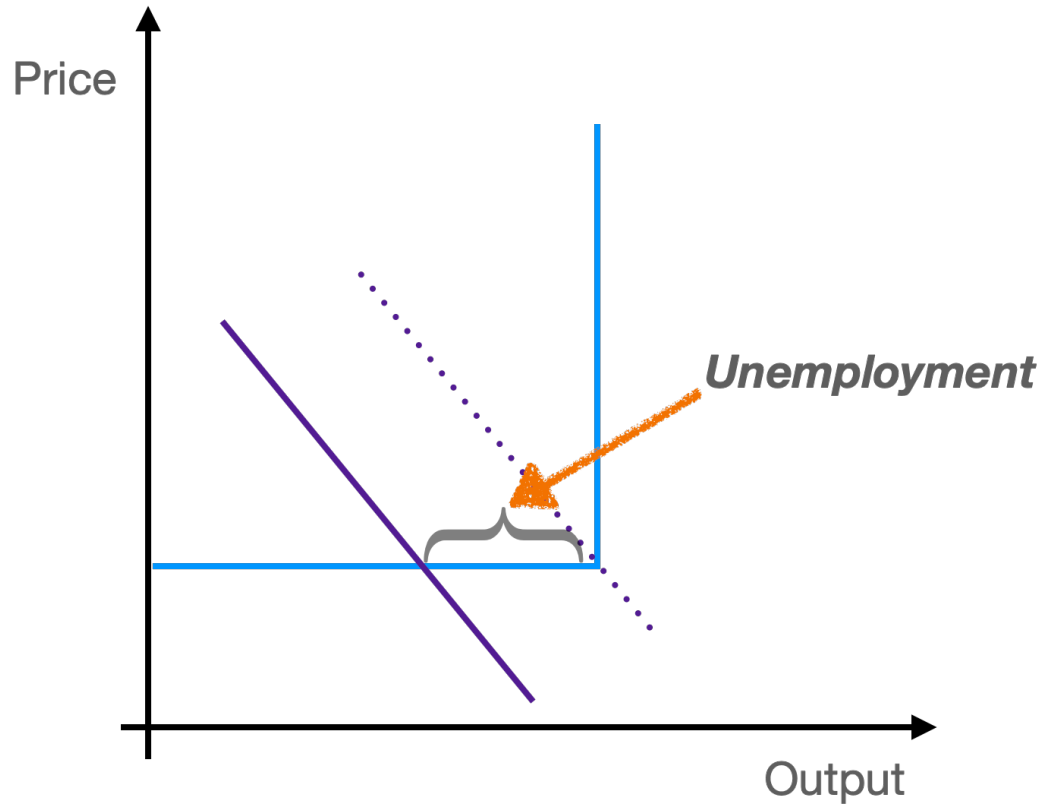
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- Inflation in some sectors, unemployment in others
- Q: How much inflation to allow?
  
- Reallocation of productive capacity (labor mobility) can help
- Q: Is the level of reallocation (constrained) efficient?
- Q: Should monetary policy help reallocation? How?

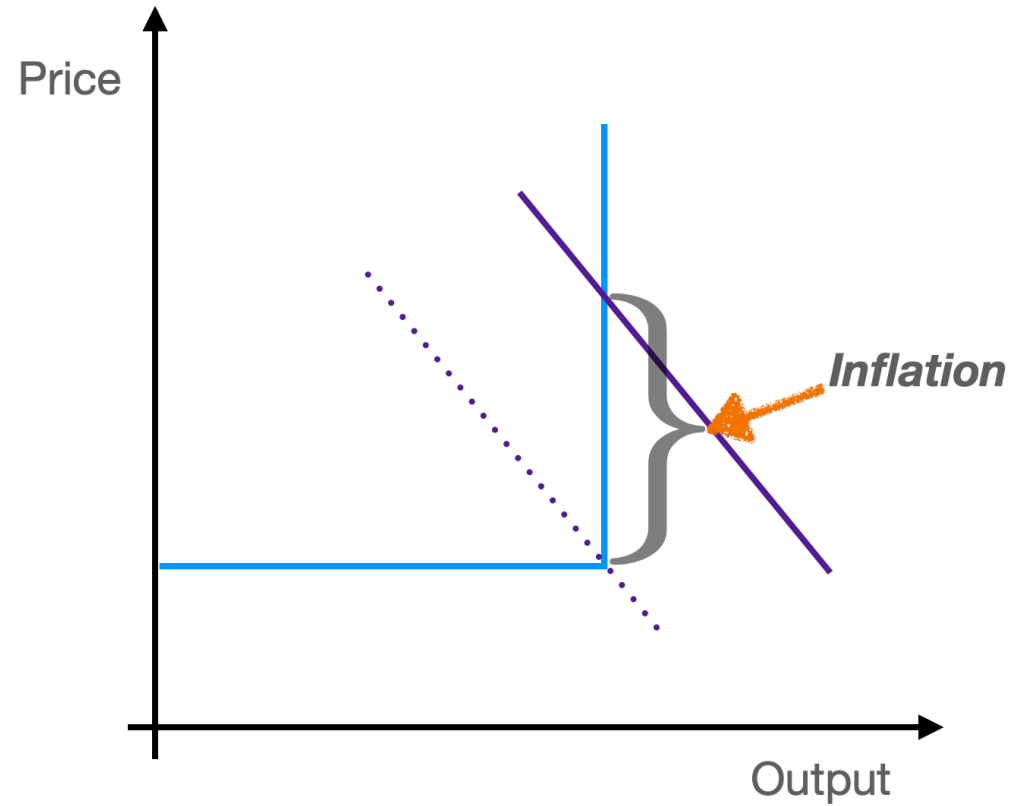
# Inflation and Relative Prices



# An Uneven Shock – 2 Sectors



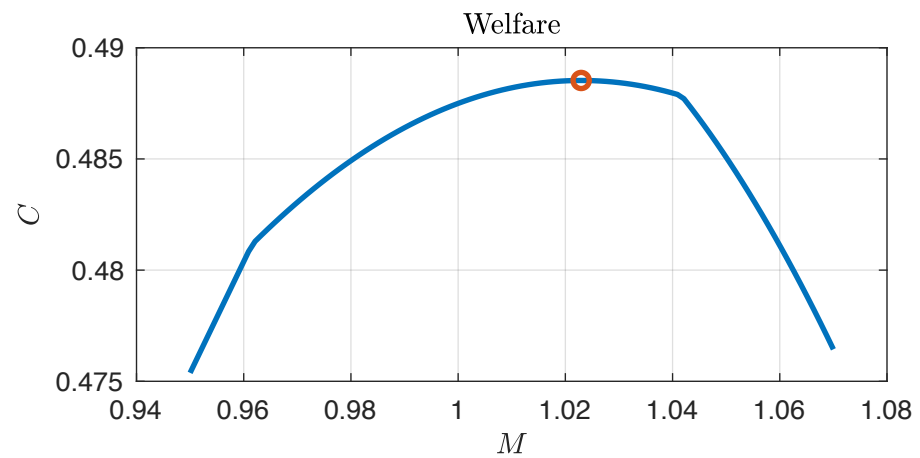
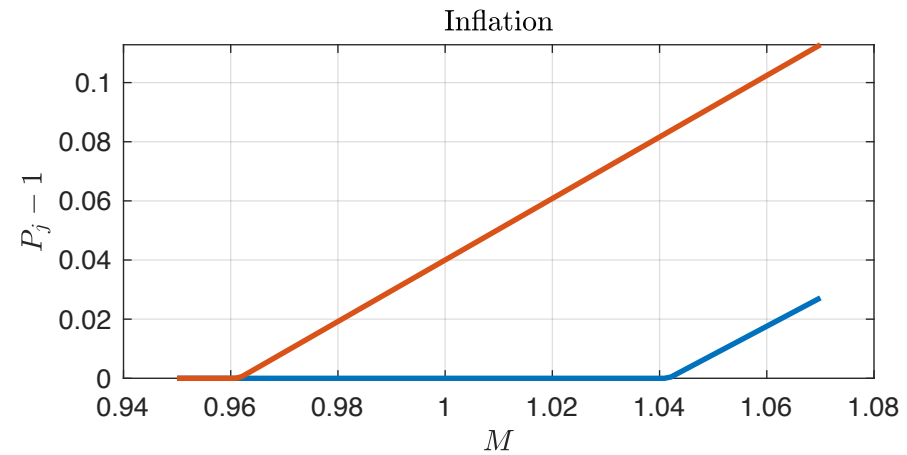
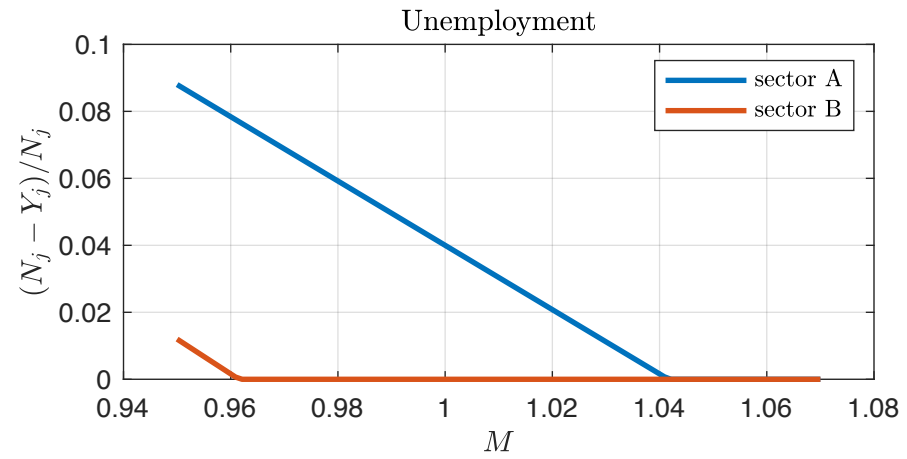
Sector A



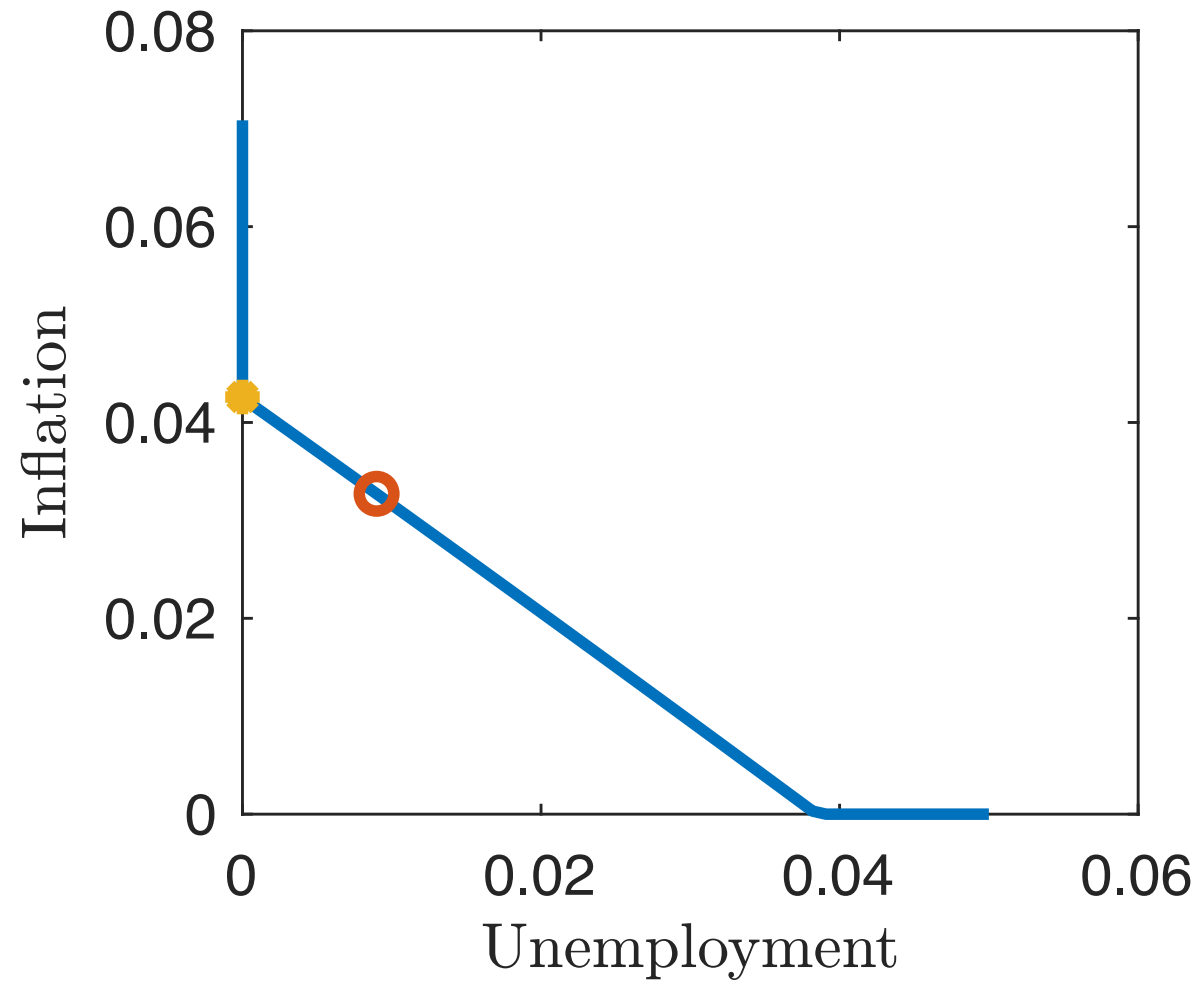
Sector B

# Optimal Policy

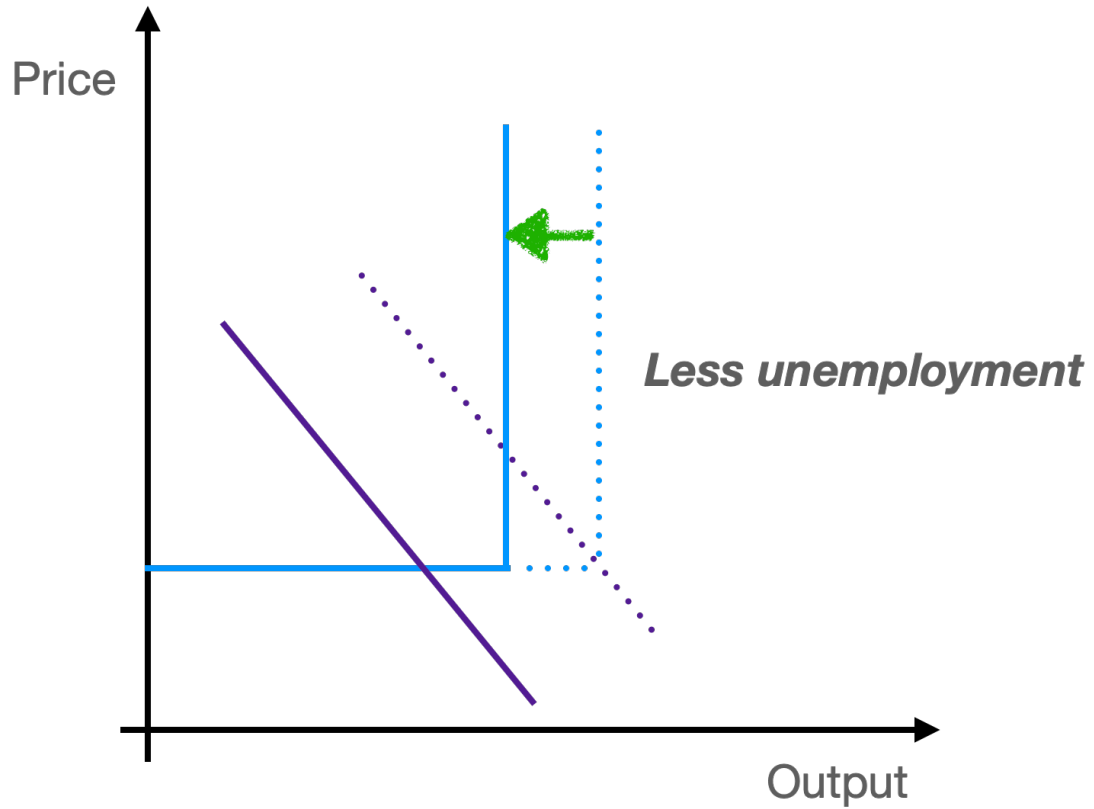
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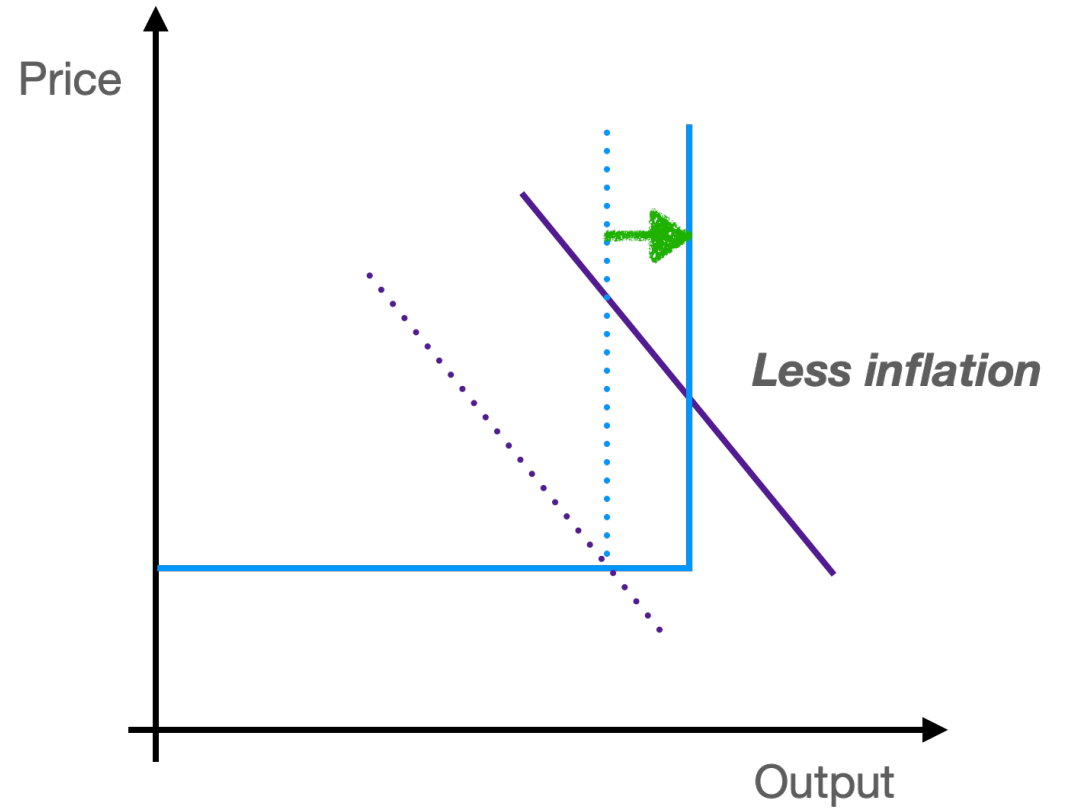
# Phillips Curve



# 2 Sectors – Reallocation



**Sector A**

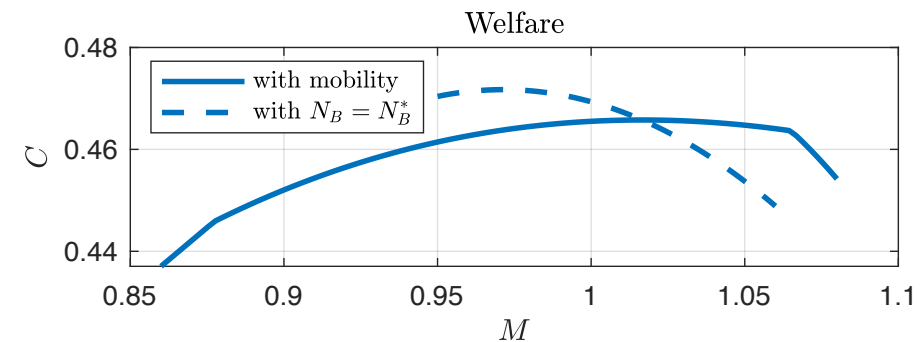
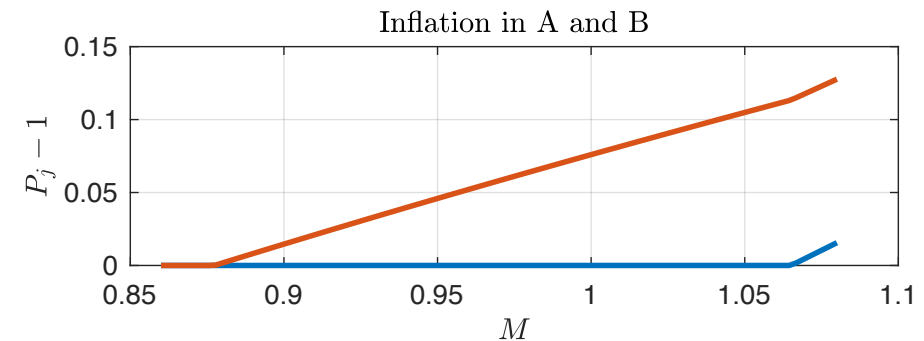
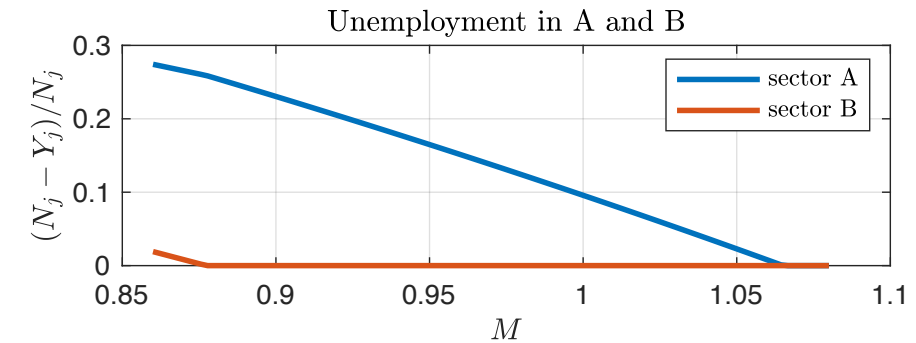
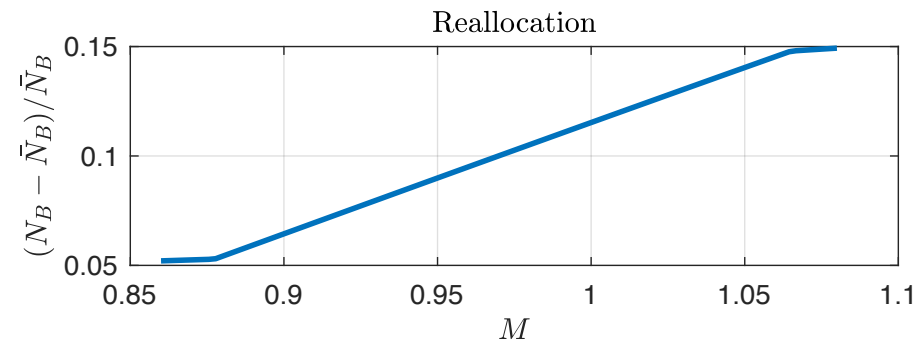


**Sector B**

# Optimal Policy

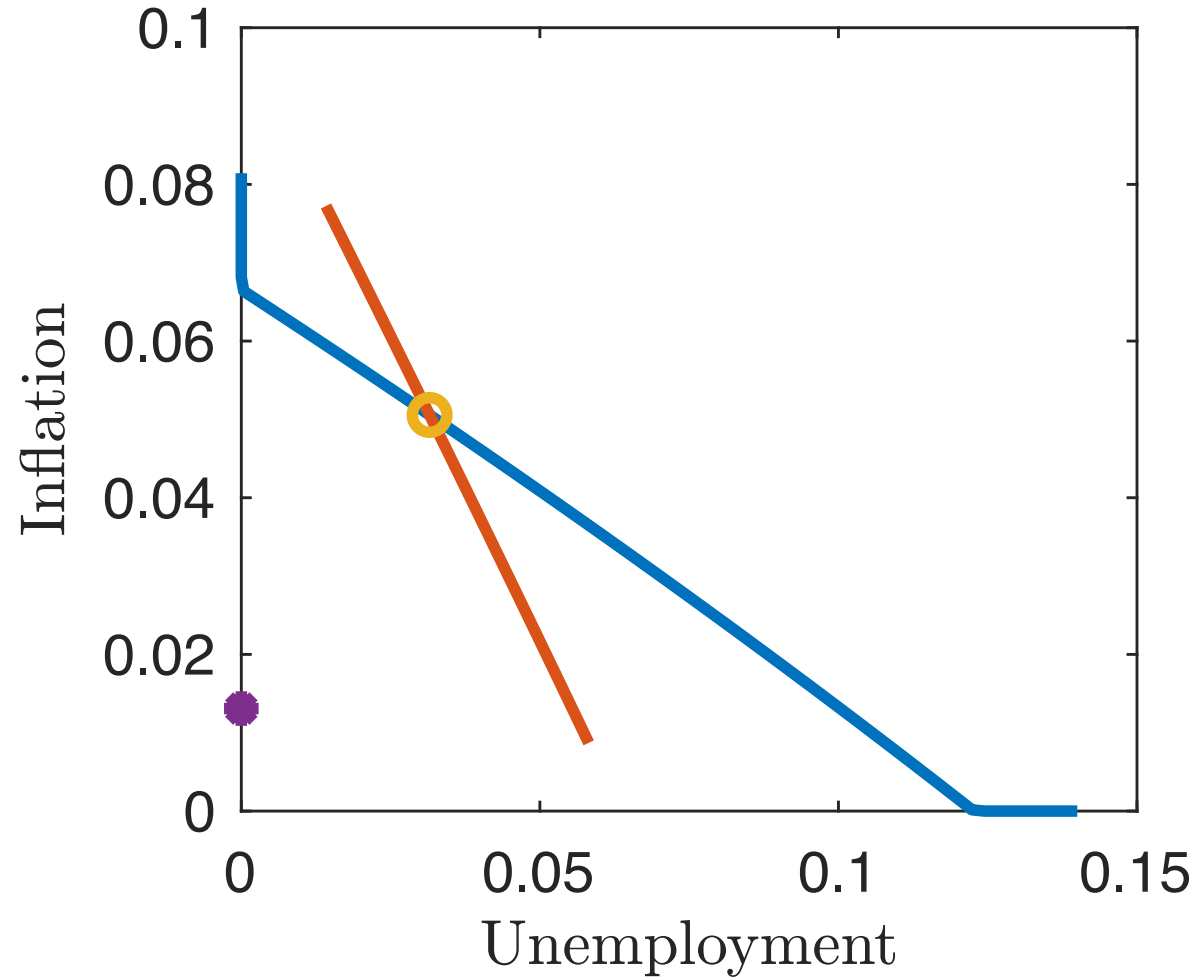
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With endogenous mobility





# Phillips Curve



# Summary

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- Inflation can help to get *relative prices* right
- Changing weights in inflation measure (getting “core inflation” right) not enough
- Reallocation is inefficiently low
- Expansionary policy can help reallocation
  - Expansionary policy discourages mobility by lowering unemployment in contracting sectors
  - But it encourages mobility by getting *relative wages* right