Micro Jumps, Macro Humps:
Monetary Policy and Business Cycles in an Estimated HANK Model

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Abstract

We estimate a Heterogeneous-Agent New Keynesian model that matches existing microeconomic evidence on marginal propensities to consume and macroeconomic evidence on the impulse response to a monetary policy shock. We rule out habit formation as an explanation for the hump shape of output, but show that sticky information in the sense of Mankiw and Reis (2002) can rationalize both the micro and the macro data. Our estimated model implies a central role for investment in the monetary transmission mechanism.

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