



Seminar

“Optimal Fiscal and Monetary Policy Coordination and Labour Market Frictions”

(in English)



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Date: 25 November 2015 (Wednesday)

Time: 2:30pm – 4pm

Venue: WYL314, Dorothy Y. L. Wong Building

Biography:

Paul Sheung Kan Luk is an Assistant Professor in Economics at Hong Kong Baptist University. He graduated from Oxford University in 2014 with a D.Phil degree in economics. Paul's research area is macroeconomics and international finance. His recent research interest includes the optimal design of monetary and fiscal policy, as well as cross-border capital flows and asset allocations. Prior to joining academia, Paul has been a research economist at Hong Kong Monetary Authority with a focus on the Chinese economy.

Abstract:

This paper studies the coordination of fiscal and monetary policy in a simple New Keynesian model augmented with costs in hiring new labour. We study the optimal policy response to an inflation shock when the policymaker acts under commitment. In this model, in response to a positive inflation shock, the optimal policy is one in which the nominal interest rate rises to stabilise inflation, and government spending rises to stabilise employment. In an economy in which the labour market has high steady-state unemployment rate and unemployment duration, such as the European labour market, active use of fiscal policy results in large welfare improvement.